

KNOXVILLE'S COMMUNITY
DEVELOPMENT CORPORATION
Knoxville, Tennessee

REPORT ON AUDIT OF BASIC FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION AND SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Knoxville's Community Development Corporation
Knoxville, Tennessee

HUD, Knoxville Field Office
710 Locust Street, S. W.
Knoxville, Tennessee 37902-2526

Report on the Financial Statements

We have audited the accompanying financial statements of the Knoxville's Community Development Corporation (the Authority) which include the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, cash flows for the year then ended, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information


Accounting Principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i-viii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the Financial Data Schedule, and the other supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information referred to above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 7, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.


Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
December 7, 2015

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

Knoxville's Community Development Corporation's (KCDC) Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of KCDC's financial activity, (c) identify changes in KCDC's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual program issues or concerns.

Since the MD&A is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with KCDC's basic financial statements (see table of contents).

Financial Highlights -2015

- KCDC's total net position decreased by \$5.6 million (or -5.6%) during fiscal year 2015. Since KCDC engages only in business-type activities, the decrease is all in the category of business-type net position. Net Position was \$93.5 million and \$99.1 million for 2015 and 2014 respectively. This decrease in net position is primarily due to the decrease this year in Net Investment in Capital Assets due to current year depreciation and the decrease in Restricted Net Position due to the continued reduction in agency cash as a result of changes in cash management procedures in the Housing Choice Voucher program.
- The business-type activities revenue decreased by \$.3 million (or -.6%) during fiscal year 2015. Revenues were \$48.4 million and \$48.7 million for 2015 and 2014 respectively. The decrease in revenue from last fiscal year is primarily due to the decrease in other revenue from prior year which included local capital revenues (State/Local) and non-dwelling rents from properties that were sold in prior year (Component Units).
- The total expenses of KCDC programs increased by \$5.3 million (or 10.9%). Total expenses were \$54.1 million and \$48.8 million for 2015 and 2014 respectively. The increase in expenses from last fiscal year is primarily due to the significant extraordinary item gain in assets held for sale (State/Local) from prior year. Not including this item, the total expenses of KCDC programs decreased by \$.1 million (or -.2%). Total expenses were \$54.2 million and \$54.3 million for 2015 and 2014 respectively. This decrease is primarily due to a decrease in housing assistance payments from the prior year.

Using This Annual Report

The Report includes three major sections, the "Management's Discussion and Analysis (MD&A)", "Basic Financial Statements", and "Supplemental Information":

MD&A

- Management Discussion and Analysis (new)

Basic Financial Statements

- Authority-wide Basic Financial Statements (new)

- Notes to Basic Financial Statements (expanded/restructured)

Supplemental Information

- Supplemental Information

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Using This Annual Report (Continued)

The primary focus of KCDC's basic financial statement (summarized program-type information) has been discarded. The new and clearly preferable focus is on both KCDC as a whole (Authority-wide). This perspective (Authority-wide) allows the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance KCDC's accountability.

Authority-Wide Basic Financial Statements

The Authority-wide basic financial statements are designed to be corporate-like in that all business type activities are consolidated into columns which add to a total for KCDC.

These Statements include a **Statement of Net Position**, which is similar to a Balance Sheet. The Statement of Net Position reports all financial and capital resources for KCDC. The statement is presented in the format where assets and deferred outflow of resources minus liabilities and deferred inflow of resources, equals "Net Position", formerly known as Net Assets. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-Current".

The focus of the Statement of Net Position (the "Unrestricted Net Position") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for KCDC. Net Position (formerly Net Assets) is reported in three broad categories:

Net Investment in Capital Assets: This component of Net Position consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: This component of Net Position consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Position: Consists of Net Position that do not meet the definition of "Net Investment in Capital Assets", or "Restricted Net Position".

The Authority-wide basic financial statements also include a **Statement of Revenues, Expenses and Changes in Net Position** (similar to an Income Statement). This Statement includes Operating Revenues, such as Rental Income, Operating Expenses, such as administrative, utilities, maintenance, and depreciation, and Nonoperating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Net Position is the "Change in Net Position", which is similar to Net Income or Loss.

Finally, a **Statement of Cash Flows** is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Authority-Wide Statement

Statement of Net Position

The following table reflects the condensed Statement of Net Position compared to prior year. KCDC is engaged only in Business-Type Activities.

Table 1 -Statement of Net Position (in millions)

	2015	2014	Net Change	% Change
Assets:				
Current and Restricted Assets	\$ 39.6	\$ 40.3	\$ (0.7)	-1.7%
Capital Assets, Net	65.6	73.0	(7.4)	-10.1 %
Other Assets	16.7	16.9	(0.2)	-1.2%
Total Assets	121.9	130.2	(8.3)	-6.4%
Deferred Outflow of Resources				NA
Total Assets & Deferred Outflow of Resources	121.9	130.2	(8.3)	-6.4%
Liabilities				
Current Liabilities	4.7	6.8	(2.1)	-30.9%
NonCurrent Liabilities	23.7	24.3	(0.6)	-2.5%
Total Liabilities	28.4	31.1	(2.7)	-8.7%
Deferred Inflow of Resources				NA
Total Liabilities & Deferred Inflow of Resources	28.4	31.1	(2.7)	-8.7%
Net Position				
Net Investment in Capital Assets	41.3	48.6	(7.3)	-15.0%
Restricted Net Position	0.0	0.9	(0.9)	-96.7%
Unrestricted Net Position	52.2	49.6	2.6	5.2%
Total Equity/Net Assets/Position	\$ 93.5	\$ 99.1	\$ (5.6)	-5.6%

For more detailed information see the Statement of Net Position.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Major Factors Affecting the Statement of Net Position

Total Assets and Deferred Outflow of Resources decreased by \$8.3 million primarily due to a decrease in net capital assets due to current year depreciation this year. Total Liabilities and Deferred Inflow of Resources decreased by \$2.7 million which is primarily due to continued note and bond reduction this year. Total Equity/Net Position decreased by \$5.6 million this year. This decrease is primarily due to the decrease in net investment in capital assets noted above and the decrease in restricted net position due to continued cash reduction as a result of cash management procedures in the Housing Choice Voucher program.

Table 2 – Change in Unrestricted Net Position (in millions)

Unrestricted Net Position, June 30, 2014	\$ 49.6
Results of Operations and extraordinary items - FY15	(5.7)
Adjustments:	
Depreciation Expense	
Adjusted results from operations	4.3
Net investment in Capital Assets and Restricted Net Position related adjustments	<u>(1.7)</u>
Unrestricted Net Position, June 30, 2015	<u>\$ 52.2</u>

While the result of operations is a significant measure of KCDC's activities, the analysis of the changes in Unrestricted Net Position provides a clearer change in financial well-being.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Table 3 -Statement of Revenues, Expenses and Changes in Net Position (in millions)

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	<u>2015</u>	<u>2014</u>	<u>Net Change</u>	<u>% Change</u>
Including Extraordinary items:				
Revenues				
Tenant Rents/Other	\$ 4.9	\$ 4.7	\$ 0.2	4.3%
Program Subsidies-Grants	41.8	41.2	0.6	1.5%
Interest Income	0.3	0.2	0.1	50.0%
Other Revenues	1.4	2.6	(1.2)	-46.2%
Total Revenues	<u>48.4</u>	<u>48.7</u>	<u>(0.3)</u>	<u>-0.6%</u>
Expenses				
Administrative	8.3	8.0	0.3	3.8%
Tenant Services	0.8	0.8		0.0%
Utilities	3.3	3.2	0.1	3.1%
Maintenance	6.1	6.2	(0.1)	-1.6%
Protective Services	0.6	0.5	0.1	20.0%
General	2.3	2.2	0.1	4.5%
Interest & Amortization	1.1	1.3	(0.2)	-15.4%
Extraordinary Maintenance & Casualty Losses	0.1	0.3	(0.2)	-66.7%
Housing Assistance Payments	21.6	21.9	(0.3)	-1.4%
Depreciation	10.0	9.9	0.1	1.0%
Extraordinary Items, Net Loss/(Gain)	<u>(0.1)</u>	<u>(5.5)</u>	<u>5.4</u>	<u>-98.2%</u>
Total Expenses	<u>54.1</u>	<u>48.8</u>	<u>5.3</u>	<u>10.9% Decrease in Net</u>
Position	<u>(5.7)</u>	<u>(0.1)</u>	<u>(5.6)</u>	<u>5600.0%</u>
Excluding Extraordinary items:				
Revenues				
Tenant Rents/Other	4.9	4.7	0.2	4.3%
Program Subsidies-Grants	41.8	41.2	0.6	1.5%
Interest Income	0.3	0.2	0.1	50.0%
Other Revenues	1.4	2.6	(1.2)	-46.2%
Total Revenues	<u>48.4</u>	<u>48.7</u>	<u>(0.3)</u>	<u>-0.6%</u>
Expenses				
Administrative	8.3	8.0	0.3	3.8%
Tenant Services	0.8	0.8		0.0%
Utilities	3.3	3.2	0.1	3.1%
Maintenance	6.1	6.2	(0.1)	-1.6%
Protective Services	0.6	0.5	0.1	20.0%
General	2.3	2.2	0.1	4.5%
Interest & Amortization	1.1	1.3	(0.2)	-15.4%
Extraordinary Maintenance & Casualty Losses	0.1	0.3	(0.2)	-66.7%
Housing Assistance Payments	21.6	21.9	(0.3)	-1.4%
Depreciation	10.0	9.9	0.1	1.0%
Total Expenses	<u>54.2</u>	<u>54.3</u>	<u>(0.1)</u>	<u>-0.2%</u>
Decrease in Net Position	<u>\$ (5.8)</u>	<u>\$ (5.6)</u>	<u>\$ (0.2)</u>	<u>3.6%</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Position

The decrease in revenue from last fiscal year is primarily due to the decrease in other revenue from prior year which included local capital revenues (State/Local) and non-dwelling rents from properties that were sold in prior year (Component Units). The increase in expenses from last fiscal year is primarily due to the significant extraordinary item gain in assets held for sale (State/Local) from prior year. Not including this item, the total expenses of KCDC programs decreased due to a decrease in housing assistance payments from the prior year.

Budgetary Highlights

For the year ended June 30, 2015, budgets were prepared by KCDC and were approved by the Board of Commissioners. The budgets were primarily used as a management tool and have no legal stature. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

As indicated by the excess of expenses over revenues, KCDC's net position decreased during the fiscal year. This decrease is attributable to less than full eligibility funding as compared to current level expenses.

Capital Assets and Debt Administration

Capital Assets

For the year ended June 30, 2015, KCDC had 65.6 million invested in a variety of capital assets as reflected in the following schedule, which represents a decrease (deductions and depreciation) of \$7.4 million from the end of last year. This decrease is primarily due to current year depreciation as a result of current year additions to the depreciation schedule.

Table 4- Capital Assets at Year-End (Net of Depreciation) (in millions)

Business-type Activities:

	Business-type Activities			
	2015	2014	Net Change	% Change
Land	\$ 3.9	\$ 3.9	\$	0.0%
Buildings	227.1	224.3	2.8	1.2%
Furniture/Equipment	1.8	1.9	(0.1)	-5.3%
Accumulated Depreciation	(173.1)	(163.2)	(9.9)	6.1%
Construction in Progress	5.9	6.1	(0.2)	-3.3%
Capital Assets, Net	\$ 65.6	\$ 73.0	\$ (7.4)	-10.1%

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Capital Assets and Debt Administration (Continued)

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in the notes to the financial statements.

Table 5 – Change in Capital Assets

	Business Type Activities
Beginning Balance 6/30/2014	\$ 73.0
Additions	2.6
Retirements - Net of depreciation	<u>(10.0)</u>
Ending Balance 6/30/2015	<u>\$ 65.6</u>

Debt Outstanding

For the year ended June 30, 2015, KCDC had \$ 24.2 million in debt (bonds, notes, etc.) outstanding compared to \$26.5 last year, showing a \$2.3 million decrease primarily due to current year payment of the Head Start Facility Note which was refinanced in fiscal year 2015.

Table 6 – Outstanding Debt, at Year-End (in millions)

Business Type	2015	2014	Net Change	% Change
Capital Improvements-Long Term	\$ 22.4	\$ 22.9	\$ (0.5)	-2.2%
Current Portion of Debt	1.8	3.6	(1.8)	-50.0%
Total Debt	<u>\$ 24.2</u>	<u>\$ 26.5</u>	<u>\$ (2.3)</u>	<u>-8.7%</u>

Economic Factors

Significant economic factors affecting KCDC are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on fuel costs, utility rates, supplies and other costs

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Financial Contact

The individual to be contacted regarding this report is Tracee B. Pross, Chief Financial Officer, KCDC at (865) 755-6433. Specific requests may be submitted to Tracee B. Pross, Chief Financial Officer, KCDC, P. O. Box 3550, Knoxville, TN 37927-3550.

Roster of Board Members

Chairman:	Dr. Daniel P. Murphy
Vice Chairman:	Jacqueline Arthur
Secretary:	Arthur W. Cate, Jr.
Treasurer:	Phyllis J. Patrick
Commissioner:	David Hutchins
Commissioner:	Dr. John B. Turner
Commissioner:	Lisa Y. Wagoner
Commissioner:	John Winemiller

Roster of Management Officials

Arthur W. Cate, Jr., Executive Director/CEO
Tracee B. Pross, Chief Financial Officer
C. Sean Gilbert, Senior Vice President of Housing
Joyce M. Floyd, Vice President-Strategic Planning and Development

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS

Current assets

Cash and cash equivalents, unrestricted	
Cash and cash equivalents, restricted	\$ 15,034,459
Investments, unrestricted	95,772
Investments, restricted	20,017,434
Accrued interest receivable	2,160,777
Accounts receivable, net of allowance	39,864
Due from other governments	518,803
Inventories, net of allowance for obsolescence of \$3,398	810,116
Prepaid items	63,592
Assets held for sale or conveyance	467,567
Total current assets	<u>343,200</u>

Noncurrent assets

Other assets

Notes and mortgages receivable	
Investments in joint ventures	\$ 0,207,419
Total other assets	<u>13,169</u>

Capital assets	<u>10,220,588</u>
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Not being depreciated	
Depreciable, net	9,769,037
Total capital assets, net	<u>55,832,947</u>

Other noncurrent assets	<u>65,601,984</u>
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Assets held for conveyance or sale	
Total noncurrent assets	<u>6,520,800</u>

Total assets	<u>82,343,372</u>
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Deferred outflow of resources	<u>121,894,486</u>
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Total assets and deferred outflow of resources	<u></u>
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LIABILITIES	<u>121,894,486</u>
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Current liabilities

Vendors and contractors payable	
Accrued wages/taxes payable	212,137
Accrued compensated absences	314,170
Accrued interest payable	791,447
Due to other governments	364,000
Unearned revenues	166,919
Notes and bonds payable	551,538
Other current liabilities	1,838,005
Accrued liabilities	36,553
Total current liabilities	<u>391,273</u>

Noncurrent liabilities	<u>4,666,242</u>
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Notes and bonds payable	
Accrued compensated absences	22,422,205
FSS escrows	1,263,250
Total noncurrent liabilities	<u>47,698</u>

Total liabilities	<u>23,733,153</u>
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Deferred inflow of resources	<u>28,399,395</u>
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Total liabilities and deferred inflow of resources	<u></u>
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NET POSITION	<u>28,399,395</u>
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Net investment in capital assets	
Restricted	41,341,774
Unrestricted	32,731

Total net position	<u>52,120,586</u>
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\$ 93,495,091	<u></u>
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The accompanying notes are an integral part of these basic financial statements.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

Operating revenues	
Rental revenue	\$ 4,725,370
HUD grants	38,034,980
Other governmental grants	548,782
Other revenue	1,100,747
Total Operating revenues	<u>44,609,879</u>
Operating expenses	
Administrative	8,257,191
Legal services	759,728
Utilities	1,349,348
Ordinary maintenance & operation	6,055,125
Projective services	600,138
Insurance	542,871
General expenses	1,759,514
Housing assistance payments	21,617,701
Depreciation	1,005,814
Total Operating expenses	<u>52,947,430</u>
Operating income (loss)	<u>(8,337,551)</u>
Nonoperating revenues (expenses)	
Interest revenue, unrestricted	195,360
Interest revenue, restricted	46,278
Interest expense	(1,134,755)
Fraud recovery	307,036
Other revenue (loss)	82,967
Other expense	(81,446)
Cost of sale of assets	19,410
Total nonoperating revenues	<u>(567,550)</u>
Income (loss) before contributions and transfers	(8,905,101)
Capital contributions	<u>3,249,324</u>
Increase (decrease) in net position	(5,655,777)
Net position, beginning of year	<u>99,150,818</u>
Net position, end of year	<u>\$ 93,495,091</u>

The accompanying notes are an integral part of these basic financial statements

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

Cash Flows From Operating Activities	
Receipts from dwelling rentals	\$ 4,400,899
Operating grants	38,042,601
Other receipts	1,265,839
Payments to employees and suppliers	(18,732,027)
Payments to landlords and resident benefits	(23,537,472)
Net cash provided (used) by operating activities	<u>1,439,840</u>
Cash Flows From Noncapital Financing Activities	
Principal paid on operating debt	<u>(10,592)</u>
Net cash provided (used) by noncapital financing activities	<u>(10,592)</u>
Cash Flows From Capital and Related Financing Activities	
Capital contributions	3,284,385
Purchases of capital assets	(2,594,754)
Proceeds/(loss) from disposals of capital assets	19,410
Principal paid on capital debt	(2,227,034)
Interest paid on capital debt	<u>(1,161,155)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,679,148)</u>
Cash Flows From Investing Activities	
Purchase of investments	1 50,912
Proceeds from homebuyer note activity - net	3,698
Investment in joint ventures	26
Interest	<u>230,972</u>
Net cash provided (used) by investing activities	<u>385,608</u>
Net increase (decrease) in cash and cash equivalents	(864,292)
Balance - beginning of the year	<u>15,994,523</u>
Balance - end of the year	<u>\$ 15,130,231</u>
Reconciliation of Cash Flows to Statement of Net Position	
Cash and cash equivalents, unrestricted	\$ 15,034,459
Cash and cash equivalents, restricted	<u>95,772</u>
	<u>\$ 15,130,231</u>

There are no non-cash transactions.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Reconciliation of Net Operating Income (Loss) to
Net Cash Provided (Used) By Operating Activities

Operating income/(loss)	\$ (8,337,551)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:	
Depreciation elimination	10,005,814
Increase in accounts receivable	(99,857)
Increase in due to/from other governments	(21,763)
Decrease in inventory	16,259
Increase in prepaid expenses	(178,346)
Decrease in other assets	87,992
Increase in accounts payable	156,501
Increase in accrued wages	35,680
Decrease in accrued compensated absences	(35,375)
Decrease in accrued liabilities	(501,498)
Decrease in unearned credits	(71,373)
Other revenue and expense reported as nonoperating	383,357
	<hr/> \$ 1,439,840 <hr/>

The accompanying notes are an integral part of these basic financial statements.

KNOXVILLE COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

A - Summary of Significant Accounting Policies and Organization:

- 1. Organization:** Knoxville's Community Development Corporation, Inc. (KCDC) is a public body corporate and politic pursuant to the Laws of the State of Tennessee which was organized to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD) and other Federal Agencies. The primary purpose of KCDC is to provide safe, decent, sanitary and affordable housing to low-income, elderly and handicapped families in Knoxville, Tennessee.
- 2. Reporting Entity:** the governing body of KCDC is its Board of Commissioners, which is composed of seven members appointed by the Mayor of the City of Knoxville. The Board appoints a Chief Executive Officer to administer the business of KCDC. KCDC is not considered a component unit of the City of Knoxville, as the Board independently oversees KCDC's operations.

In determining how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of the *Codification of Governmental Accounting and Financial Reporting Standards* and *Statement No. 14, (amended) of the Governmental Accounting Standards Board: The Financial Reporting Entity*. These criteria include manifestation of oversight responsibility including financial accountability, appointment of a voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal dependency, potential for dual inclusion, and organizations included in the reporting entity although the primary organization is not financially accountable. Based upon the application of these criteria, the reporting entity has the following blended component units:

- **Passport Development Corporation** is a Section 115 Corporation acting as KCDC's general partner to the limited partnerships formed in conjunction with low-income tax credits.
- **Knoxville's Housing Development Corporation** is a Section 115 Corporation established to acquire affordable housing projects in the Knoxville area for KCDC.
- **Family Investment Foundation, Inc.** is a 501 (c) (3) Corporation established for charitable, social, vocational, recreational and health purposes, and related business ventures.
- **Greater Tennessee Housing Assistance Corporation** is a Section 115 Corporation established for the purpose of funding the construction of six Section 8 New Construction housing projects. All debts have been paid and all projects have been sold. The corporation is now dormant.
- **Five Points I Corporation** is a Section 115 Corporation that is an instrumentality of KCDC. The purpose of the corporation is to be the general partner in a limited partnership formed in conjunction with low-income housing tax credits for the development of the Five Points Senior Building.
- **Townview Towers Affordable Housing Corporation** is a Section 115 Corporation that is an instrumentality of KCDC. The purpose of the corporation is to facilitate the renovation of Townview Towers Apartments. The corporation owns a 40% ownership interest in TVT GP, LLC, General Partner to TVT, LP established to finance transactions related to the rehabilitation of Townview Towers Apartments. This corporation is currently inactive.

These blended component units are reported in the aggregate on the Combining Schedule of Net Assets and Combining Schedule of Revenues, Expenses and Changes in Net Position. Detail of each component unit is also presented in the Supplemental Information section of this report.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

Main programs of KCDC are as follows:

Low Rent Public Housing under Annual Contributions Contract A-2571: This type of housing consists of apartments and single-family dwellings owned and operated by KCDC. Funding is provided by tenant rent payments and subsidies provided by HUD.

Section 8 Housing Assistance Payments Programs under Annual Contributions Contract A-3159 (Housing Choice Vouchers and Moderate Rehabilitation Programs): These are housing programs wherein low rent tenants lease housing units directly from private landlords rather than through KCDC. KCDC contracts with these private landlords to make assistance payments for the difference between the approved contract rent and the actual rent paid by the low rent tenants.

Redevelopment Program administers CDBG and other projects for the City of Knoxville and Knox County.

Public Housing Capital Fund Cluster of Programs are programs for the modernization, demolition and redevelopment of public housing which include Capital Fund Programs.

The Manor is a program whereby KCDC provides meals, laundry service, and has a twenty-four hour staff available for the special needs of the more dependent elderly tenants. This service is provided to those tenants for a fee.

Entrepreneurial Activities is a program which provides technical assistance to other PHA's and local governments.

Central Office Cost Center is a business unit within KCDC that earns income from fees and/or by overseeing other business activity.

Other Programs administered by KCDC are designed to give assistance to residents in a manner which encourages independence and upward mobility and provide professional services to other agencies as needed.

- 3. Basis of Presentation and Accounting:** In accordance with uniform financial reporting standards for HUD housing programs, the basic financial statements are prepared in accordance with U. S. generally accepted accounting principles (GAAP).

Based upon compelling reasons offered by HUD, KCDC reports its basic financial statements as a special purpose government engaged solely in business-type activities, which is similar to the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting and the flow of economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

3. Basis of Presentation and Accounting: (Continued)

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

Net Investment in Capital Assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted - Net position whose use by KCDC is subject to externally imposed stipulations that can be fulfilled by actions of KCDC pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

Unrestricted – Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or KCDC Board or may otherwise be limited by contractual agreements with outside parties.

- 4. Budgets:** Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The capital fund budgets are adopted on a "project length" basis. Budgets are not, however, legally adopted nor legally required for basic financial statement presentation.
- 5. Cash and Cash Equivalents:** For purposes of the Statement of Cash Flows, KCDC considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents.
- 6. Interprogram Receivables and Payables:** Interprogram receivables/payables, when present, are all current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of KCDC. Cash settlements are made periodically, and all interprogram balances net zero. Offsetting due to/due from balances are eliminated for the basic financial statement presentation.
- 7. Investments:** Investments, when present, are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by HUD.
- 8. Inventories** - Inventories (consisting of materials and supplies) are valued at cost using the moving average method. If inventory falls below cost due to damage, deterioration or obsolescence, KCDC establishes an allowance for obsolete inventory. KCDC relies upon its periodic (annual) inventory for financial reporting purposes. In accordance with the consumption method, inventory is expensed when items are actually placed in service.
- 9. Prepaid Items:** Payments made to vendors for goods or services that will benefit periods beyond the fiscal year end are recorded as prepaid items.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

10. Use of Estimates: The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the basic financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

11. Fair Value of Financial Instruments: The carrying amount of KCDC's financial instruments at June 30, 2015 including cash, investments, accounts receivable, and accounts payable closely approximates fair value.

12. Capital Assets:

- a. Book Value:** All purchased fixed assets are valued at cost when historical records are available. When no historical records are available, fixed assets are valued at estimated historical cost.

Laud values were derived from development closeout documentation.

Donated fixed assets are recorded at their fair value at the time they are received.

Donor imposed restrictions are deemed to expire as the asset depreciates.

All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.

- b. Depreciation:** The cost of buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method.

Depreciation commences on modernization and development additions in the year following completion.

The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings	27 years
Building modernization	10 years
Appliances	7 years
Office equipment	7 years
Maintenance equipment	5 years
Automobiles	5 years
Community space equipment	5 years
Computer Equipment	3 years

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

12. Capital Assets: (Continued)

c. Maintenance and Repairs Expenditures: Maintenance and repairs expenditures are charged to operations when incurred. Betterments in excess of \$5,000 are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

13. Compensated Absences: Compensated absences are those absences for which employees will be paid, such as vacation and sick leave computed in accordance with *GASE Statement No. 16*. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of KCDC and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of KCDC and its employees are accounted for in the period in which such services are rendered or in which such events take place.

14. Litigation Losses: KCDC recognizes estimated losses related to litigation in the period in which the occasion giving rise to the loss occurred; the loss is probable and the loss is reasonably estimable.

15. Annual Contribution Contracts: Annual Contribution contracts provide that ffiJD shall have KCDC to audit and examine the records of public housing authorities. Accordingly, final determination of KCDC's financing and contribution status for the Annual Contribution Contracts is the responsibility of ffiJD based upon financial reports submitted by KCDC.

16. Risk Management - KCDC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. KCDC carries commercial insurance for all identified risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Additionally, there have been no significant reductions in insurance coverage from the prior year.

17. Use of Restricted Assets: It is KCDC's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

18. Operating Revenues and Expenses: The principal operating revenues of KCDC's enterprise fund are charges to customers for rents and services. Operating expenses for KCDC's enterprise fund include the cost of providing housing and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

B - Deposits and Investments: For purposes of the Statement of Cash Flows, KCDC considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents. Investments are disclosed at Par Value with unamortized premiums and discounts.

1. HUD Deposit and Investment Restrictions

HUD requires authorities to invest excess HUD program funds in obligations of the United States, certificates of deposit or any other federally insured instruments.

HUD also requires that deposits of HUD program funds be fully insured or collateralized at all times. Acceptable security includes FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by KCDC or with an unaffiliated bank or trust company for the account of KCDC.

2. Deposit and Investment Risks

KCDC held the following deposit and investments at June 30, 2015:

Deposits:

Carrying Value
Demand

\$]5.129.631

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (Continued)

Investment:

Investment	Maturity Date	Amortized Value	Moody's Rating	S & P Rating	Callable
FFCB	5/19/2016	\$ 999,702	Aaa	AA+	Yes
FFCB	5/23/2016	999,910	Aaa	AA+	Yes
FHLMC	12/19/2016	998,370	Aaa	AA+	Yes
FHLMC	2/22/2017	1,000,567	Aaa	AA+	NO
US TREAS NTS	2/28/2017	1,002,057	Aaa	NR	NO
FHLB	4/17/2017	274,743	Aaa	AA+	Yes
US TREAS NTS	5/31/2017	997,799	Aaa	NR	NO
FHLB	6/15/2017	998,238	Aaa	AA+	Yes
FHLMC	6/30/2017	1,000,000	Aaa	AA+	Yes
FFCB	8/15/2017	897,561	Aaa	AA+	Yes
FHLMC	9/11/2017	1,000,880	Aaa	AA+	Yes
FNMA	9/28/2017	1,002,203	Aaa	AA+	Yes
FFCB	10/10/2017	828,740	Aaa	NR	NO
FFCB	11/20/2017	1,000,000	Aaa	AA+	Yes
FNMA	1/30/2018	1,000,000	Aaa	AA+	Yes
FNMA	2/27/2018	998,696	Aaa	AA+	Yes
FHLB	2/27/2018	999,777	Aaa	AA+	Yes
FHLB	4/27/2018	1,000,626	Aaa	NR	NO
FNMA	4/30/2018	1,001,190	Aaa	AA+	Yes
FMB	5/25/2018	1,000,000	Aaa	AA+	Yes
FNMA	6/11/2018	<u>1,036,900</u>	Aaa	AA+	Yes
Total Securities		<u>\$ 20,037,959</u>			

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (Continued)

Restricted - HCV	\$ 20,495
Unrestricted	<u>20,017,464</u>
	20,037,959
Restricted investments - LRPH	
Revenue fund	172,893
Debt service fund	1
Debt service reserve	1,966,669
Program expense fund	<u>219</u>
	2,139,782
Demand Deposits (Carrying Value)	<u>15,129,631</u>
Total Deposits and Investments	37,307,372
Petty cash on hand	<u>600</u>
Total Cash and Investments	\$ 37,307,972
Reconciliation to Statement of Net Assets :	
Cash and cash equivalents - unrestricted	\$ 15,034,459
Cash and cash equivalents - restricted	59,939
Cash restricted for payment of current liabilities	35,833
Investments - unrestricted	20,017,464
Investments - restricted	<u>2,160,277</u>
	\$ 37,307,972

The investments held in the various trust accounts for bond covenant purposes are invested in open-ended mutual funds which are not subject to custodial credit risk because they do not represent specific individual securities.

Custodial Credit Risk: Exposure to custodial credit related to deposits exists when KCDC holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in KCDC's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when KCDC holds investment that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in KCDC's name.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (Continued)

KCDC's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. The investment policy also limits acceptable collateral to U.S. Treasury securities obligation of federal agencies, securities of government-sponsored agencies, and other instruments which may be approved by the U.S. Department of HUD. As required by Federal 12 U.S. C.A., Section 1823(e), all financial institutions pledging collateral to KCDC must have a written collateral agreement approved by the board of directors or loan committee.

The investments held in the various trust accounts for bond covenant purposes are invested in open-ended mutual funds which are not subject to custodial credit risk because they do not represent specific individual securities.

At June 30, 2015, KCDC was not exposed to custodial credit as defined above.

Investment Credit Risk: KCDC's investment policy limits unrestricted investments to those allowed by the U.S. Department of ffiJD. These investment limitations are described in Note A. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. KCDC has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations – rating agencies – as of the year end. Unless there is information to the contrary, obligations of the U. S. government or obligations explicitly guaranteed by the U. S. government are not considered to have credit risk and do not require disclosure of credit quality.

As noted in the schedule of deposits and investment above, at June 30, 2015, the investments held by KCDC mature 05/09/2016 through 06/19/2018. KCDC may sell these investments at fair valne at any time.

Concentration of Investment Credit Risk: Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of KCDC. Investments issued or explicitly guaranteed by ffiJD-approved instruments are excluded from this consideration.

Uncollateralized restricted investments are deposited with the Bank of New York in the amount of \$2,139,782. This represents 9.65% of KCDC's total investment portfolio. The funds are deposited in accordance with Trust Indenture requirements.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

C - Accounts Receivable:

Affiliates	\$ 434,777
Tenant accounts (net of allowance for doubtful accounts of \$59,828)	75,679
Other	<u>8,347</u>
	\$ 518,803

D - Due From Other Governments:

U.S. Department of HUD	\$ 571,825
Local Governments	238,291
	\$ 810,116

E - Prepaid Items:

Prepaid insurance	\$ 192,602
Contractors	211,385
Other prepayments	63,580
	\$ 467,567

F - Assets held for Sale or Conveyance:

In its capacity as a local redevelopment agency, KCDC contracts with other local governmental agencies for various types of redevelopment projects. These projects may range from relatively minor projects such as rehabilitation of family dwellings up to much larger commercial redevelopment endeavors.

In the course of this activity, KCDC often assumes ownership of selected properties during the rehabilitation period, only to transfer or sell these properties in accordance with the contract with the respective local governments.

The current portion is \$343,200. The noncurrent portion is \$6,556,300, with an allowance for doubtful accounts of \$35,500, netting \$6,520,800 in the noncurrent portion.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

G - Notes and Mortgages Receivable:

<u>TYPE</u>	<u>Re ference</u>	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
HOPE VI Loans -				
Passport Homes LP - a	I		\$ 359,386	\$ 359,386
- Passport Homes LP - b	I		1,242,000	1,242,000
Passport Residencies LP - a	2		489,718	489,718
- Passport Residencies LP - b	2		2,214,951	2,214,951
- Homebuyers forgivable - a	3		1,791	1,791
Redevelopment Loan				
- Passport Homes LP	I		592,139	592,139
Capital Fund Loan				
- Passport Residencies LP	2		270,510	270,510
Capital Funds Loan				
- Eastport Development LP	4		100,000	100,000
ARRA Loan				
- Eastport Development LP	4		4,058,273	4,058,273
KHDC Loan				
- Eastport Development LP	4		128,651	128,651
Passport Dev Corp				
- Eastport Development LP	4		<u>750,000</u>	<u>750,000</u>
Totals			<u>\$ 10,207,419</u>	<u>\$ 10,207,419</u>

1. Passport Homes Limited Partnership – KCDC entered into a mixed financing arrangement with Passport Homes L.P. (PHLP) for the rehabilitation of the University Avenue Affordable Housing Project, "Passport Homes", in the Mechanicsville Community. The notes receivable consists of \$1,242,000 in Hope VI grant proceeds, \$359,386 in McKinney funds and \$592,139 in KCDC Redevelopment funds.

The Hope VI funds were provided through HUD as a grant to KCDC.

The McKinney funds were provided through the McKinney Act Refunding Agreement with GTHAC regarding mortgage refunding bonds.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

G - Notes and Mortgages Receivable: (Continued)

In cooperation with HUD, these funds have been loaned to PHLP, and are due 25 years after completion of the project. The capital improvements purchased with these funds are reflected on the financial statements of PHLP.

Interest, along with an outstanding allowance for doubtful accounts, accrues on these notes as follows:

Hope VI loan	2.00% annually
McKinney loan	5.98% annually
Redevelopment loan	2.00% annually

2. Passport Residences Limited Partnership – KCDC entered into a mixed financing arrangement with Passport Residences, L.P. (PRLP) for the addition of 50 public housing units as part of Passport Homes in the Mechanicsville Community in Knoxville, Tennessee. The notes receivable consists of \$2,214,951 in Hope VI grant proceeds, \$489,718 in Affordable Housing Program (AHP) Funds, and \$270,510 in KCDC's Capital Fund Program.

The Hope VI funds were provided through HUD as a grant to KCDC.

The Affordable Housing funds were provided through the FHLB as a grant to KCDC.

The Capital Funds were provided through HUD as a grant to KCDC.

In cooperation with HUD, the Hope VI funds have been loaned to PRLP, and are due 25 years after completion of the project. The FHLB funds as well as the proceeds from the Capital Funds Program that have been loaned to PRLP are due 30 years after completion of the project. The capital improvements purchased with these funds are reflected on the financial statements of PRLP.

Interest, along with an offsetting allowance for doubtful accounts, accrues on these notes as follows:

Hope VI loan	.25% annually
AHP FHLB loan	.25% annually
Capital Fund loan	5.23% annually

3. Homebuyers (forgivable) – KCDC sells homes to qualifying families and provides soft second mortgages which are forgivable in annual portions contingent upon certain program requirements.
4. Eastport Development Limited Partnership - KCDC entered into a mixed financing arrangement with Eastport Development, L.P. (EDLP) for the addition of 60 public housing units as part of The Residences at Eastport II in the Five Points Community in Knoxville, Tennessee. The notes receivable consist of \$100,000 in KCDC's Capital Fund Program, \$4,058,273 in ARRA funds, \$128,651 in Knoxville's Housing Development Corporation (KHDC) funds, and \$750,000 in Passport Development Corporation (PDC) funds.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

G - Notes and Mortgages Receivable: (Continued)

The Capital Funds are provided through HUD as a grant to KCDC.

The ARRA Funds are provided through HUD as a grant to KCDC.

In cooperation with HUD, the Capital and ARRA Funds are being loaned to EDLP, and are due 40 years after completion of the project. The capital improvements purchased with these funds are reflected on the financial statements of EDLP.

	<u>Interest Accrual Rate</u>	<u>Maturity Date</u>
Capital Funds Loan	0% annually	October 1, 2051
ARRA Funds Loan	0% annually	October 1, 2051
KHDC Loan	0% annually	October 1, 2051
Passport Development Corporation Loan	0% annually	October 1, 2051

H - Land, Buildings and Equipment:

	Balance June 30, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Not being depreciated:					
Land	\$ 3,879,751	\$	\$	\$	\$ 3,879,751
Construction in progress	6,126,037	2,488,629		(2,725,380)	5,889,286
Total not being depreciated	<u>10,005,788</u>	<u>2,488,629</u>	<u></u>	<u>(2,725,380)</u>	<u>9,769,037</u>
Depreciable:					
Buildings & improvements	224,311,733	73,021		2,725,380	227,110,134
Accumulated depreciation	(161,529,673)	(9,920,829)			(171,450,502)
Net buildings & improvements	<u>62,782,060</u>	<u>(9,847,808)</u>	<u></u>	<u>2,725,380</u>	<u>55,659,632</u>
Equipment	1,885,873	33,104	(139,644)		1,779,333
Accumulated depreciation	(1,660,677)	(84,985)	139,644		(1,606,018)
Net equipment	<u>225,196</u>	<u>(51,881)</u>	<u></u>	<u></u>	<u>173,315</u>
Net depreciable assets	<u>63,007,256</u>	<u>(9,899,689)</u>	<u></u>	<u>2,725,380</u>	<u>55,832,947</u>
TOTAL	<u>\$ 73,013,044</u>	<u>\$ (7,411,060)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 65,601,984</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

I - Due to Other Governments:

City of Knoxville (PILOT)	\$ 146,473
U.S. Department of HUD	<u>20,446</u>
	\$ 166,919

J - Unearned Revenues:

Local Governments	\$ 51,760
HUD	10,550
Prepaid Rents	47,628
Cable Provider Marketing Share Revenue	441,600
	\$ 551,538

K - Notes and Bonds Payable:

Reference	Interest Expense	Current	Long-Term	Total
1	\$ 53,672	\$ 175,400	\$ 583,700	\$ 759,100
2	53,633	98,744	1,461,063	1,559,807
3	670,810	1,135,000	12,935,000	14,070,000
4	356,638	428,861	7,193,743	7,622,604
5	<u> </u>		<u>248,699</u>	<u>248,699</u>
	<u>\$ 1,134,753</u>	<u>\$ 1,838,005</u>	<u>\$ 22,422,205</u>	<u>\$ 24,260,210</u>

All of the following notes and bonds payable are secured directly by real property which was financed.

- I. In July 2000, KCDC issued a note to the City of Knoxville, Tennessee in the amount of \$2,540,000. Proceeds from the note were used by KCDC in its Hope VI project in the historic Mechanicsville Redevelopment Area. The note is primarily payable from and secured by a pledge of the Tax Increment Revenues. In the event of a deficiency in such Tax Increment Revenues, this note is generally payable from the Authority's income and revenues. The principal balance is payable on the second business day prior to May 1 and November 1 of each year beginning on November 1, 2000. An additional principal payment of 210,000 was made May 1, 2015 from excess TIF revenues. The outstanding balance as of June 30, 2015 is \$759,100. KCDC anticipates that additional principal payments may be made in 2016 and 2017 which could result in an early payoff of this note in 2017. Future projected payments based upon current amortization schedule are as follows:

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2015

(Continued)

K - Notes and Bonds Payable: (Continued)

	Princial	Interest
2016	\$ 175,400	\$ 37,955
2017	183,700	29,185
2018	193,400	20,000
2019	203,100	10,330
2020	<u>3,500</u>	<u>175</u>
	<u>\$ 759,100</u>	<u>\$ 97,645</u>

2. On April 15, 2004, KCDC issued a promissory note to SunTrust Bank in the amount of \$2,470,155. The proceeds from the loan were utilized to reimburse KCDC for construction of a Head Start building in order to provide preschool education for qualified low-income eligible children. The note was paid in full in March 2010 and refinanced through SunTrust Bank in the amount of \$2,130,465 bearing interest at 3.1134% annum. The note was paid in full again in May 2015 and refinanced through SunTrust Bank in the amount of \$1,567,500 bearing interest at 2.88% annum. The note is to be paid in monthly increments of \$11,869 for a five year term ending March 15, 2020. The outstanding balance as of June 30, 2015 is 1,559,807. Future projected payments are as follows:

	Principal	Inte rest
2016	\$ 98,744	\$ 43,678
2017	101,743	40,679
2018	104,655	37,768
2019	107,709	34,713
2020	<u>1,146,956</u>	<u>159,482</u>
	<u>\$ 1,559,807</u>	<u>\$ 316,320</u>

3. KCDC pledged a portion of its annual Capital Fund Program Grant from HUD to secure allocable portion of Bonds issued by KCDC. KCDC's net proceeds, \$22,540,000, is being used to acquire, construct, equip, renovate and improve public housing developments owned and operated by KCDC for rental to be occupied by qualified tenants under the applicable HUD rules and regulations. The bonds are designated "Capital Program Revenue Bonds, Series 2004". The entire proceeds of \$22,540,000 were deposited with the Trustee (Bank of New York), which has been authorized and directed to apply and disburse such monies for the purposes and in the order specified in the Master Trust Indenture. The outstanding balance as of June 30, 2015 is \$14,070,000. During FY 2016, it is anticipated that KCDC will receive HUD approval to redeem the bonds and execute a loan agreement with Capital One Public Funding LLC for payment of the remaining outstanding debt from Public Housing Capital Fund obligations. Subject to this transaction, the Bonds are payable as follows:

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

K - Notes and Bonds Payable: (Continued)

	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,135,000	\$ 614,060
2017	<u>12,935,000</u>	<u>2,682,880</u>
	\$ 14,070,000	\$ 3,296,940

4. On November 9, 2006, KCDC entered into a Master Equipment Lease – Purchase Agreement with National City Commercial Capital Corporation. This agreement is the financing mechanism used to fund the energy equipment replacements and renovations included in the Energy Performance Contract between KCDC and Arneresco, Inc. Energy Performance Contracting is an innovative financing technique that uses cost savings from reduced energy consumption to repay the cost of installing energy conservation measures. The lease payments began 22 months after the start of capital improvements in November 2006 resulting in the first payment being made October 2008. HUD has encouraged Housing Agencies such as KCDC to participate in such Energy Performance Contracts. As a result, KCDC has an outstanding balance on this capital lease as of June 30, 2015 of \$7,622,604. The capital lease is payable as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 428,861	\$ 338,649
2017	448,827	318,682
2018	469,724	297,786
2019	491,593	275,917
2020	514,481	253,029
2021-2025	2,954,798	882,750
2026-2028	<u>2,314,320</u>	<u>180,085</u>
	<u>\$ 7,622,604</u>	<u>\$ 2,546,898</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

K - Notes and Bonds Payable: (Continued)

5. On March 31, 2008, KCDC purchased Valley Oaks Apartments, a Section 8 project based property from Knox Housing Partnership in the amount of \$63,977. As a condition of the sale, KCDC assumed a forgivable note as detailed below:

On August 29, 1994, Knox Housing Partnership purchased Valley Oaks Apartments from HUD for a cost of \$1. In exchange for this bargain purchase price, the Partnership agreed to maintain the property as rental or cooperative housing for a period of thirty years. Because of stipulations in the purchase contract, the project recorded the apartment buildings and land at their fair market value of \$497,400 less the cost of \$1 actually paid. As the HUD requirements are met for the purchase of this property at the bargain price, the Forgivable HUD Advance in the amount of \$497,399 will be reduced and a HUD contribution recognized as follows:

25% of the \$497,399 or \$124,350 on August 30, 2014

50% of the \$497,399 or \$248,699 on August 30, 2024

The outstanding balance as of June 30, 2015 was \$248,699.

6. The Housing Authority as the Redevelopment agency for the City of Knoxville has entered into tax increment financing agreements between various developers and various financial institutions to help developers secure financing within the redevelopment area. The debt is non-recourse debt to KCDC. These agreements are designed to give developers an incentive to redevelop vacant downtown property. The tax increment financing agreement is between KCDC, the developer, and the financial institution. The property tax payments as well as the equity in the property are used as collateral as well as the developer's personal guarantee on the loan. The following tax increment financing agreements have been issued by KCDC:

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

K - Notes and Bonds Payable: (Continued)

Redevelopment Project	Location	Principal(s)	Date Approved	TIF Amount	Project Total
1 Jackson/Depot (Fire Street Lofts)	214 Jackson	David Dewhirst 214 Jackson, LLC	9/28/2004	\$ 1,100,000	\$ 6,400,000
2 Jackson/Depot	122-126 Gay	ELOC Dev. One, LLC Cole Smith	10/25/2005	\$ 500,000	\$ 6,100,000
3 Gay Street Burwell Building	602 S. Gay	Cardinal Investment Properties, LLC Brian Conley	10/25/2005	\$ 855,796	\$ 7,450,000
4 Gay Street (Charter Federal Building / Holston Bldg.)	123 S. Gay	HNB Development, LLC Thomas Grace & Dewhirst	10/25/2005	\$ 1,600,000	\$ 13,725,000
5 World's Fair Park (Candy Factory & Victorian Houses)	Clinch & 11th Street	Kensey, Probasco, Hays	1/17/2006	\$ 1,600,000	\$ 13,407,000
6 Old Knoxville Glove Factory (Citiview@Riverwalk)	445 W. Blount Ave.	Camden Mgm't Inc. & Focus Development, Inc John Gumpert & Brad Johnson	3/28/2006	\$ 2,800,000	\$ 27,550,330
7 Gay Street (Mast General Store - Top 3 floors)	402 Gay	Gay Street Development Partners LLC Johnm Craig, Wayne Balsius & Faris Eid	8/1/2006	\$ 1,441,802	\$ 6,401,000
8 Gay Street (Crimson Building)	302 S. Gay Street	Crimson Inferno, LLC Jeffrey Nash, Buzz Gross	3/13/2007	\$ 350,000	\$ 4,912,572
9 Downtown North/I-275 (Greystone Building - North Central Village)	912 N. Central Ave.	North Central Village, LLC Jeffrey Nash	4/9/2007	\$ 200,000	\$ 2,031,639
10 Jackson /Depot (JFG Warehouse)	129 W. Jackson	Testerman, Testerman & Buckner, LLC Building Project Kyle Testerman	7/31/2007	\$ 240,000	\$ 4,174,256
11 Brownlow (Brownlow School)	1305 Luttrell	KP Jon Kinsey	9/27/2007	\$ 542,284	\$ 5,450,000
12 Jackson /Depot (JFG Lofts)	200-202 W. Jackson	Dewhirst Properties David Dewhirst	1/29/2008	\$ 810,000	\$ 7,560,000
13 Jackson /Depot (SE Glass Building)	100 N. Broadway	Conversion Properties Joe Petre	6/17/2008	\$ 460,123	\$ 4,103,976

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

K - Notes and Bonds Payable: (Continued)

14 Gay Street (500 Block)	516-524 Gay St.	500 Block LLC John Craig	7/29/2008	\$ 812,500	\$ 4,908,189
15 South Waterfront (South Waterfront)	Langford Avenue	City of Knoxville KCDC	12/2008	\$ 22,000,000	\$139,000,000
16 Downtown North/I-275 (Fifth Avenue Condos)	605, 607 King St 201, 209 W 5th Ave	Svend Brooks, Tim Wesley, Earl Worsham	3/26/2009	\$ 356,000	\$ 3,734,762
17 Central Bus. Dist. West (Daylight Building)	501 Union Avenue	David Dewhirst, Mark Hein	6/25/2009	\$ 959,000	\$ 6,745,000
18 Northside Waterfront (The Landings)	710 East 1st Ave	Aaron White, Hilary Connelly	8/27/2009	\$ 1,500,000	\$ 28,240,321
19 Jackson/Depot (Harold's Building)	131 S. Gay Street	John W. Craig, Timothy Hill, Michael Hatcher	8/27/2009	\$ 129,000	\$ 847,866
20 Market Square (Arnstein Building)	501 Market Street	David Dewhirst Mark Hein Tim Zitzman Albert Ritchie Chuck Griffin Kelly Headen	12/20/2011	\$ 1,145,000	\$ 8,515,000
21 University Commons (University Commons)	Kingston Pike	Jim Harrison Bud Cullom	4/26/2012	\$ 10,000,000	\$ 62,000,000
22 Northside Waterfront (The Landings, Phase II)	930 Riverside Forest Way	Aaron White, Hilary Connelly	12/31/2012	\$ 715,000	see No. 18
23 Gay Street (JC Penney Buildings)	412, 414 and 416 S. Gay Street	Timothy Hill, Michael Hatcher David Dewhirst Mark Hein	11/14/2013	\$ 1,150,000	\$ 7,361,000
24 Jackson/Depot (Magnolia Urban Village)	110 Magnolia Ave. 319 N. Central St.	Jeffrey Nash	8/4/2014	\$ 225,000	\$ 2,100,000

KCDC capitalizes interest cost incurred on funds used to construct or renovate structures. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. There was no interest cost capitalized in 2015.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

L - Other Liabilities:

	Current	Long-Term
FSS escrows	\$ 35,833	\$ 47,698
Other	720	<u> </u>
	\$36,553	\$ 47,698

M - Accrued Liabilities

Contractors	\$ 50,187
Capital lease fee	67,643
Accrued utilities	253,385
Other Accrued Expenses	20,058
	<u>\$ 391,273</u>

N - Schedule of Changes in Noncurrent Liabilities:

	June 30, 2014		Year Ended June 30, 2015		June 30, 2015	
	Long-term Portion	Current Portion	Addi tions	Payments	Current Portion	Long-term Portion
Notes and bonds payable	\$ 22,910,403	\$),587,433	\$ 1,559,807	\$ (3,797,433)	\$ 1,838,005	\$ 22,422,205
Accrued compensated absences	1,315,334	826,822	3 1 6,959	(404,418)	791,447	1,263,250
FSS Escrows	60,554	65,116	42,680	(84,819)	35,833	47,698
	<u>\$ 24,286,291</u>	<u>\$4,479,371</u>	<u>\$ 1,919,446</u>	\$ (4,286,670)	<u>\$2,665,285</u>	\$ 23,733,153

O - Annual Contributions by Federal Agencies

Annual Contributions Contract A-2571 – Pursuant to the Annual Contributions Contract, HUD contributes an operating subsidy for low-rent public housing. The operating subsidy contributions for the year ended June 30, 2015 were \$14,484,440. HUD also contributed additional funds through the Capital fund for modernization and operations in the amount of \$4,094,207.

Annual Contributions Contract A-3159 – Annual Contributions Contract A-3159 for Section 8 programs provides for housing assistance payments to private owners of residential units on behalf of eligible low or very low-income families. The program provides for such payments with respect to existing and moderately rehabilitated housing covering the difference between the maximum rental on a dwelling unit, and the amount of rent contribution by a participating family and related administrative expense. KCDC is also eligible to receive reimbursement for preliminary expenses prior to lease up.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

O - Annual Contributions by Federal Agencies (Continued)

Annual Contributions Contract A-3159 (Continued)

HUD contributions for the year ended June 30, 2015 were as follows:

Housing Choice Voucher Cluster	\$ 22,099,532
Section 8 Moderate Rehabilitation	515 448
	\$22,614,980

P - Defined Contribution Pension Plan: KCDC provides pension benefits for all its full-time employees through a defined contribution plan entitled "Housing Authority Retirement Trust (HART)". The plan is administered by ADP. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The HART Trustees are authorized to establish and amend plan benefits. Employees are eligible to participate six months after the date of employment. KCDC contributes approximately 12.8% of the employee's base salary each month for employees hired prior to November 1, 2006. For employees hired after October 31, 2006 the employer contribution is 8.8%, while the employee has no required contribution. KCDC's contributions for each employee (and interest allocated to the employee's account) are fully vested after 7 years of continuous service. KCDC contributions for, and interest forfeited by, employees who leave employment before vesting are used to reduce KCDC's current-period contribution requirement.

KCDC's total payroll in fiscal year 2015 was \$7,193,469. Payroll covered by the pension plan was \$6,745,287. KCDC made the required contributions amounting to \$813,430, and employees made elective contributions of \$4,900.

Q - Post-Employment Health Plan Benefits: KCDC provides for the accumulation of tax-free monies to be used for health-related costs in a benefit plan known as the "Post Employment Health Plan" administered by Nationwide. The Plan is an agent multiple-employer defined benefit OPEB plan.

KCDC contributes a fixed amount of \$15 per month to each participating employee's universal PEHP account. All regular, full-time employees are enrolled in the plan on the first day of the month following completion of three years of service. Benefits and options are outlined in literature made public by Nationwide, or may be accessed on-line at www.nrsforu.com. Contributions to the PEHP are determined by the Board of Commissioners of KCDC. PEHP benefits available to KCDC employees are established and amended by the PEHP trustees.

KCDC funds the program in a fixed amount per month per participant, and has net all financial obligations of the PEHP. Additionally, KCDC has accrued a liability for PEHP which relate to sick leave conversions which may become available in the future.

The employees do not contribute to this plan.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

R - Economic Dependency: KCDC receives approximately 86% of its revenue from HUD. If the amount of revenues received from HUD falls below critical levels, KCDC's reserves could be adversely affected.

S - Contingencies:

1. KCDC is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to KCDC in the current and prior years. There were no such examinations for the year ended June 30, 2015.
2. KCDC is a defendant in various lawsuits and has retained outside counsel to vigorously defend such litigation. The outcome of these cases is currently indeterminable and, therefore, management believes that it is unlikely that resolution of these matters will have a material adverse effect on the financial condition of KCDC.

T - Conduit Type Debt: Debt related to the original acquisition and early modernization of the public housing developments is funded, guaranteed and serviced by HUD. There is no debt or pledge of faith and credit on part of KCDC. Accordingly, this debt has not been recorded in the basic financial statements of KCDC. Additionally, HUD no longer provides debt service information to KCDC.

U - Commitments: KCDC is engaged in modernization programs funded by HUD and other sources. In this regard, KCDC has entered into construction-type contracts with approximately \$954,557 remaining until completion.

V - Leasing Activities (as Lessor): KCDC is the lessor of dwelling units mainly to low-income residents. The rents under the leases are determined generally by the resident's income as adjusted for eligible deductions regulated by HUD, although the resident may opt for a flat rent. Leases may be cancelled by the lessee at any time. KCDC may cancel the lease only for cause.

Revenues associated with these leases are recorded in the financial statements and schedules as "Rental Revenue". Rental Revenue per dwelling unit generally remains consistent from year to year, but is affected by general economic conditions which impact personal income and local job availability.

W - Interprogram Transfers: KCDC will make cash transfers to and between its various programs as outlined in the Federal Regulations and authorized and approved by KCDC's Board of Commissioners. All these programs are part of the Enterprise Fund, therefore there are no interfund transfers.

X - Other Leases: KCDC has entered into a 55-year ground lease with Passport Homes, L.P. and a 99-year ground lease with Passport Residences, L.P. for the development of HOPE VI housing. KCDC has also entered into a ground lease with Eastport Development LP for the development of a low income housing project.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

Y - Subsequent Events: In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through December 7, 2015, the date the financial statements were available to be issued.

Z - Condensed Statement - Component Units: As per GASB 61, the condensed combining information is provided on the component unit:

	Knoxville Housing Development Corporation	Passport Development Corporation	Five Points I Corporation	Family Investment Foundation, Inc	Total
Condensed Statement of Net Position					
Current Assets	\$ 7,988,745	\$ 901,900	\$ 274	\$ 23,064	\$ 8,913,983
Capital Assets	1,760,999		122,132		1,883,131
Other Assets	<u>130,442</u>	<u>763,169</u>			<u>893,611</u>
Total Assets	\$ 9,880,186	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 11,690,725
Current Liabilities	\$ 290,852	\$	\$	\$	\$ 290,852
Noncurrent Liabilities	<u>2,044,763</u>				<u>2,044,763</u>
Total Liabilities	\$ 2,335,615	\$	\$	\$	\$ 2,335,615
Net Position					
Net Investment in Capital Assets	\$ (557,908)	\$	\$ 122,132	\$	\$ (435,776)
Restricted					
Unrestricted	<u>8,102,479</u>	<u>1,665,069</u>	<u>274</u>	<u>23,064</u>	<u>9,790,886</u>
Total Net Position	\$ 7,544,571	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 9,355,110
Condensed Statement of Revenues, Expenses and Changes in Net Position					
Operating Revenues	<u>\$ 567,623</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 567,623</u>
Operating Expenses					
Operating Expense-Other	101,843	48	1,261	23	103,175
Depreciation Expense	<u>102,401</u>				<u>102,401</u>
Total Operating Expenses	204,444	48	1,261	23	205,576
Nonoperating Revenue(Expense)					
Nonoperating Revenue-Other	49,772	4,627		7	54,406
Nonoperating Expense-Other	<u>(107,305)</u>				<u>(107,305)</u>
Federal Operating Grants					
Total Nonoperating Revenue(Expense)	(57,533)	4,627		7	(52,899)
Transfers from(to) other entities	(120,647)		120,647		
Change in Net Position	185,199	4,579	119,386	(16)	309,148
Net Position, beginning of year	7,359,722	1,660,490	3,020	23,080	9,045,962
Net Position, end of year	\$ 7,544,571	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 9,355,110

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

Z- Condensed Statement - Component Units: (Continued)

	Knoxville Housing Development Corporation	Passport Development Corporation	Five Points ■ Corporation	Family Investment Foundation, Inc	Total
Condensed Statement of Cash Flows					
Net Cash Flows from (used) Operating Activities	\$ 387,831	\$ (99,489)	\$ 118,507	\$ (23)	\$ 406,826
Net Cash Flows provided (used) Noncapital Financing Activities		(10,592)			(10,592)
Net Cash provided (used) by Capital and Related Financing Activities	(713,716)		(119,112)		(832,828)
Net Cash provided (used) by Investing Activities	<u>59,828</u>	<u>93,505</u>		<u>7</u>	<u>153,340</u>
Net increase in Cash and Cash Equivalents	(266,057)	(16,576)	(605)	(16)	(283,254)
Cash - Beginning of year	3,041,620	16,576	605	23,080	3,081,881
Cash-End of year	<u>\$ 2,775,563</u>	<u>\$</u>	<u>\$</u>	<u>\$ 23,064</u>	<u>\$ 2,798,627</u>

AA - Decrease in Net Position: The decrease in net position is expected to be absorbed through operations in subsequent fiscal years, assisted by transfers from various programs. No fund deficit is expected as a result of the current year loss.

AB - Extraordinary Items: In the current year, KCDC engaged in a transaction directed by local government and outside management control that is unusual in nature. This transaction related to assets held for conveyance which occurred in the State/Local Program for a net loss of (\$77,200). KCDC also engaged in a transaction to terminate the investment agreement with FSA Capital Management Services LLC for the investment of debt service reserve funds associated with KCDC's Capital Program Revenue Bonds Series 2004 which was very unusual in nature. This extraordinary transaction occurred in the Low Income Public Housing Program for a net gain of \$160,167 (Lonsdale Homes AMP: \$96,100 and Northridge Crossing AMP: \$64,067). Both transactions resulted in a total net gain of \$82,967.

SUPPLEMENTAL INFORMATION

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION

Knoxville, Tennessee

COMBINING SCHEDULE OF NET POSITION

JUNE 30, 2015

	Low Rent Public Housing Program	Section 8 Housing Choice Voucher Program	Blended Component Units	State & Local Programs	Other Business Activities	Mainstream Voucher Program	PIH Family Self Sufficiency Program	Section 8 Moderate Rehabilitation Program	Community Development Block Grant	Central Office Cost Center	Eliminations	Total 2015
ASSETS												
Current assets												
Cash and cash equivalents, unrestricted	\$ 8,689,958	\$ 184,732	\$ 2,798,627	\$ 100,002	\$ 138,719	\$	\$	\$ 66,893	\$	\$ 3,055,528	\$	\$ 15,034,459
Cash and cash equivalents, restricted	5	95,767										95,772
Investments, unrestricted	10,432,734	185,901	5,496,629		110,465	7,055		132,172		3,652,508		20,017,464
Investments, restricted	2,139,782	20,495										2,160,277
Accrued interest receivable	19,677	389	10,367		208	13		249		8,961		39,864
Accounts receivable, net of allowance	53,632	23,797	434,777		515			171		5,911		518,803
Due from other governments	470,129	59,529	171,783	66,508		28,202		13,965				810,116
Inventories, net of allowance for obsolescence of \$3,398	32,894									30,698		63,592
Prepaid items	352,323	31,383	1,800	13,704	45					68,312		467,567
Assets held for sale or conveyance				343,200								343,200
Total current assets	22,191,134	601,993	8,913,983	523,414	249,952	35,270		213,450		6,821,918		39,551,114
Noncurrent assets												
Other assets												
Notes and mortgages receivable	8,734,838		880,442	592,139								10,207,419
Investments in joint ventures			13,169									13,169
Total other assets	8,734,838		893,611	592,139								10,220,588
Capital assets												
Not being depreciated	9,310,477		244,160	214,400								9,769,037
Depreciable, net	54,136,146		1,638,971							57,830		55,832,947
Total capital assets, net	63,446,623		1,883,131	214,400						57,830		65,601,984
Other noncurrent assets												
Assets held for conveyance or sale				6,520,800								6,520,800
Total other noncurrent assets				6,520,800								6,520,800
Total noncurrent assets	72,181,461		2,776,742	7,327,339						57,830		82,343,372
Total assets	94,372,595	601,993	11,690,725	7,850,753	249,952	35,270		213,450		6,879,748		121,894,486
Deferred outflow of resources												
Total assets and deferred outflow of resources	94,372,595	601,993	11,690,725	7,850,753	249,952	35,270		213,450		6,879,748		121,894,486

LIABILITIES

Current liabilities

Vendors and contractors payable	143,900	18,494	7,054	4,969	11,268		26,452	212,137
Accrued wages/taxes payable	177,529	27,008		751	2,702		106,380	314,370
Accrued compensated absences	391,116	54,297		4,110	22,624		319,300	791,447
Accrued interest payable	355,677		8,323					364,000
Due to other governments	146,473	784				19,662		166,919
Unearned revenues	499,778			51,760				551,538
Notes and bonds payable	1,563,861		274,144					1,838,005
Other current liabilities	715	35,833			5			36,553
Accrued liabilities	370,366	1,493	1,331	113	942		17,028	391,273

Total current liabilities

3,649,415	137,909	290,852	61,703	37,541		19,662	469,160	4,666,242
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Noncurrent liabilities

Notes and bonds payable	20,377,442		2,044,763					22,422,205
Accrued compensated absences	624,650	86,420		3,502	35,786		512,892	1,263,250
FSS escrows		47,698						47,698

Total noncurrent liabilities

21,002,092	134,118	2,044,763	3,502	35,786			512,892	23,733,153
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Total liabilities

24,651,507	272,027	2,335,615	65,205	73,327		19,662	982,052	28,399,395
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Deferred inflow of resources

Total liabilities and deferred inflow of resources

24,651,507	272,027	2,335,615	65,205	73,327		19,662	982,052	28,399,395
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NET POSITION

Net investment in capital assets	41,505,320		(435,776)	214,400			57,830	41,341,774
Restricted		32,731						32,731
Unrestricted	28,215,768	297,235	9,790,886	7,571,148	176,625	35,270	193,788	5,839,866

Total net position

\$ 69,721,088	\$ 329,966	\$ 9,355,110	\$ 7,785,548	\$ 176,625	\$ 35,270	\$ 193,788	\$ 5,897,696	\$ 93,495,091
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KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION

Knoxville, Tennessee

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

		Section 8 Housing Choice Voucher Program	Blended Component Units	State & Local Programs	Other Business Activities	Mainstream Voucher Program	PIH Family Self- Sufficiency Program	Section 8 Moderate Rehabilitation Program	Community Development Block Grant	Central Office Cost Center	Eliminations	Total 2015
Rental revenue	\$ 4,725,370	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 4,725,370
Fee revenue										4,658,315	(4,658,315)	
HUD grants	1 5,329,323	21,572,667				526,865	90,677	515,448				38,034,980
Other governmental grants			374,382						174,400			548,782
Other revenue	659,342	4,455	193,241	151,255	270,093			287		302,018	(279,944)	1,300,747
Total operating revenues	20,714,035	21,577,122	567,623	151,255	270,093	526,865	90,677	515,735	174,400	4,960,333	(4,938,259)	44,609,879
Operating expenses												
Administrative	6,360,432	1,743,544	69,061	111,920	27,646	53,815		59,629		3,258,833	(3,427,689)	8,257,191
Asset management fee	422,230										(422,230)	
Tenant services	389,793	24,638			254,620		90,677					759,728
Utilities	3,270,422		5,807	1,433						71,686		3,349,348
Ordinary maintenance & operation	6,207,384	2,928	21,830	4,129	606					686,948	(868,700)	6,055,125
Protective services	600,138											600,138
Insurance	463,861	22,545	2,753	770	366					52,576		542,871
General expenses	1,482,854	275,517	3,724	14,436	25,818			240		176,565	(219,640)	1,759,514
Housing assistance payments		20,701,948				460,883		454,870				21,617,701
Depreciation	9,875,388		102,401							28,025		10,005,814
Total operating expenses	29,072,502	22,771,120	205,576	132,688	309,056	514,698	90,677	514,739		274,633	(4,938,259)	52,947,430
Operating income (loss)	(8,358,467)	(1,193,998)	362,047	18,567	(38,963)	12,167		996	174,400	685,700		(8,337,551)
Nonoperating revenues (expenses)												
Interest revenue, unrestricted	104,284	2,025	54,406	45	1,248	102		1,166		32,084		195,360
Interest revenue, restricted	46,278											46,278
Interest expense	(1,027,450)		(107,305)									(1,134,755)
Fraud recovery	65,850	241,506						280				307,636
Other revenue (loss)	160,167			(77,200)								82,967
Other expense	(84,446)											(84,446)
Cost of sale of assets	800									18,610		19,410
Total nonoperating revenues	(734,517)	243,531	(52,899)	(77,155)	1,248	102		1,446		50,694		(567,550)
Income (loss) before contributions and transfers	(9,092,984)	(950,467)	309,148	(58,588)	(37,715)	12,269		2,442	174,400	736,394		(8,905,101)
Capital contributions	3,249,324											3,249,324
Transfers from (to) other entities	174,400								(174,400)			
Increase (decrease) in net position	(5,669,260)	(950,467)	309,148	(58,588)	(37,715)	12,269		2,442		736,394		(5,655,777)
Net position, beginning of year	75,390,348	1,280,433	9,045,962	7,844,136	214,340	23,001		191,346		5,161,302		99,150,868
Net position, end of year	\$ 69,721,088	\$ 329,966	\$ 9,355,110	\$ 7,785,548	\$ 176,625	\$ 35,270	\$	193,788	\$	\$ 5,897,696	\$	\$ 93,495,091

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION

Knoxville, Tennessee

COMBINING SCHEDULE OF NET POSITION
BLENDED COMPONENT UNITS
JUNE 30, 2015

	Knoxville's Housing Development Corporation	Passport Development Corporation	Five Points I Corporation	Family Investment Foundation, Inc.	Total
ASSETS					
Current assets					
Cash and cash equivalents, unrestricted	\$ 2,775,563	\$	\$	\$ 23,064	\$ 2,798,627
Investments, unrestricted	5,030,385	466,244			5,496,629
Accrued interest receivable	9,488	879			10,367
Accounts receivable, net of allowance		434,777			434,777
Due from other governments	171,783				171,783
Prepaid items	1,526		274		1,800
Total current assets	7,988,745	901,900	274	23,064	8,913,983
Noncurrent assets					
Other assets					
Notes and mortgages receivable	130,442	750,000			880,442
Investments in joint ventures		13,169			13,169
Total other assets	130,442	763,169			893,611
Capital assets					
Not being depreciated	122,028		122,132		244,160
Depreciable, net	1,638,971				1,638,971
Total capital assets, net	1,760,999		122,132		1,883,131
Total noncurrent assets	1,891,441	763,169	122,132		2,776,742
Total assets	9,880,186	1,665,069	122,406	23,064	11,690,725
Deferred outflow of resources					
Total assets and deferred outflow of resources	9,880,186	1,665,069	122,406	23,064	11,690,725
LIABILITIES					
Current liabilities					
Vendors and contractors payable	7,054				7,054
Accrued interest payable	8,323				8,323
Notes and bonds payable	274,144				274,144
Accrued liabilities	1,331				1,331
Total current liabilities	290,852				290,852
Noncurrent liabilities					
Notes and bonds payable	2,044,763				2,044,763
Total liabilities	2,335,615				2,335,615
Deferred inflow of resources	2,335,615				2,335,615
Total liabilities and deferred inflow of resources					
NET POSITION					
Net investment in capital assets	(557,908)		122,132		(435,776)
Unrestricted	8,102,479	1,665,069	274	23,064	9,790,886
Total net position	\$ 7,544,571	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 9,355,110

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BLENDED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2015

	Knoxville's Housing Development Corporation	Passport Development Coreoration	Five Points I Corporation	Family Investment Foundation, Inc.	Total
Operating revenues					
Other governmental grants	\$ 374,382	\$	\$	\$	\$ 374,382
Other revenue	193,241				193,241
Total operating revenues	567,623				567,623
Operating expenses					
Administrative	68,029	22	987	23	69,061
Utilities	5,807				5,807
Ordinary maintenance & operation	21,830				21,830
Insurance	2,479		274		2,753
General expenses	3,698	26			3,724
Depreciation	102,401				102,401
Total operating expenses	204,244	48	1,261	23	205,576
Operating income (loss)	363,379	(48)	(1,261)	(23)	362,047
Nonoperating revenues (expenses)					
Interest revenue, unrestricted	49,772	4,627		7	54,406
Interest expense	(107,305)				(107,305)
Total nonoperating revenues	(57,533)	4,627		7	(52,899)
Income (loss) before transfers	305,846	4,579	(1,261)	(16)	309,148
Transfers from (to) other entities	(120,647)		120,647		
Increase (decrease) in net position	185,199	4,579	119,386	(16)	309,148
Net position, beginning of year	7,359,372	1,660,490	3,020	23,080	9,045,962
Net position, end of year	\$ 7,544,571	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 9,355,110

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF CASH FLOWS
BLENDED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2015

	Knoxville's Housing Development Corporation	Passport Development Corporation	Five Points I Corporation	Family Investment Foundation, Inc.	Total
Cash Flows From Operating Activities					
Receipts from dwelling rentals	\$	\$ (99,441)	\$	\$	\$ (99,441)
Operating grants	374,382				374,382
Other receipts	206,097				206,097
Payments to employees and suppliers	(71,166)	(48)	(1,915)	(23)	(73,152)
Payments to landlords and resident benefits	(835)		(225)		(1,060)
Transfers	(120,647)		120,647		
Net cash provided (used) by operating activities	387,831	(99,489)	118,507	(23)	406,826
Cash Flows From Noncapital Financing Activities					
Principal paid on operating debt		(10,592)			(10,592)
Cash Flows From Capital and Related Financing Activities					
Purchases of capital assets			(119,112)		(119,112)
Principal paid on capital debt	(602,902)				(602,902)
Interest paid on capital debt	(110,814)				(110,814)
Net cash provided (used) by capital and related financing activities	(713,716)		(119,112)		(832,828)
Cash Flows From Investing Activities					
Purchase of investments	10,157	89,104			99,261
Proceeds from homebuyer note activity - net	3,698				3,698
Investment in joint ventures		26			26
Interest	45,973	4,375		7	50,355
Net cash provided (used) by investing activities	59,828	93,505		7	153,340
Net increase (decrease) in cash and cash equivalents	(266,057)	(16,576)	(605)	(16)	(283,254)
Balance - beginning of the year	3,041,620	16,576	605	23,080	3,081,881
Balance - end of the year	\$ 2,775,563	\$	\$	\$ 23,064	\$ 2,798,627
Reconciliation of Cash Flows to Statement of Net Position					
Cash and cash equivalents, unrestricted	\$ 2,775,563	\$	\$	\$ 23,064	\$ 2,798,627
	<u>\$ 2,775,563</u>	<u>\$</u>	<u>\$</u>	<u>\$ 23,064</u>	<u>\$ 2,798,627</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF CASH FLOWS
BLENDED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

**Reconciliation of Net Operating Income (Loss) to
Net Cash Provided (Used) By Operating Activities**

	Knoxville's Housing Development Corporation	Passport Development Corporation	Five Points I Corporation	Family Investment Foundation, Inc.	Total
Operating income/(loss)	\$ 363,379	\$ (48)	\$ (1,261)	\$ (23)	\$ 362,047
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:					
Depreciation elimination	102,401				102,401
Increase in accounts receivable		(99,441)			(99,441)
Decrease in due to/from other governments	12,856				12,856
Decrease in prepaid expenses	4,079		(274)		3,805
Decrease in other assets	19,717				19,717
Increase in accounts payable	6,075				6,075
Decrease in accrued wages	(1,360)		(605)		(1,965)
Increase in unearned credits	1,331				1,331
Transfers	(120,647)		120,647		
	<u>\$ 387,831</u>	<u>\$ (99,489)</u>	<u>\$ 118,507</u>	<u>\$ (23)</u>	<u>\$ 406,826</u>

Knoxville's Community Development Corp. (TN003)

KNOXVILLE, TN

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2015

	Project Total	14.896 PIH Family Self- Sufficiency Program	14.218 Community Development Block Grants/ Entitlement Grants	14.871 Housing Choice Vouchers	14.879 Mainstream Vouchers	6.2 Component Unit - Blended	2 State/Local	1 Business Activities	14.856 Lower Income Housing Assistance Program - Section 8 Moderate	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$8,689,958			\$184,732		\$2,798,627	\$100,002	\$138,719	\$66,893	\$3,055,528	\$15,034,459		\$15,034,459
112 Cash - Restricted - Modernization and Development	\$0								\$0		\$0		\$0
113 Cash - Other Restricted	\$0			\$59,934					\$0		\$59,934		\$59,934
114 Cash - Tenant Security Deposits	\$5								\$0		\$5		\$5
115 Cash - Restricted for Payment of Current Liabilities	\$0			\$35,833					\$0		\$35,833		\$35,833
100 Total Cash	\$8,689,963	\$0	\$0	\$280,499	\$0	\$2,798,627	\$100,002	\$138,719	\$66,893	\$3,055,528	\$15,130,231	\$0	\$15,130,231
121 Accounts Receivable - PHA Projects	\$0								\$0		\$0		\$0
122 Accounts Receivable - HUD Other Projects	\$470,129			\$59,529	\$28,202				\$13,965		\$571,825		\$571,825
124 Accounts Receivable - Other Government	\$0					\$171,783	\$66,508		\$0		\$238,291		\$238,291
125 Accounts Receivable - Miscellaneous	\$1,811			\$110		\$434,777		\$515	\$0	\$5,911	\$443,124		\$443,124
126 Accounts Receivable - Tenants	\$64,383			\$689					\$0		\$65,072		\$65,072
126.1 Allowance for Doubtful Accounts - Tenants	-\$12,962			\$0					\$0		-\$12,962		-\$12,962
126.2 Allowance for Doubtful Accounts - Other	\$0			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0
127 Notes, Loans, & Mortgages Receivable - Current	\$0								\$0		\$0		\$0
128 Fraud Recovery	\$400			\$69,689					\$345		\$70,435		\$70,435
128.1 Allowance for Doubtful Accounts - Fraud	\$0			-\$46,691					-\$175		-\$46,866		-\$46,866
129 Accrued Interest Receivable	\$19,677			\$389	\$13	\$10,367		\$208	\$249	\$8,961	\$39,864		\$39,864
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$543,438	\$0	\$0	\$83,715	\$28,215	\$616,927	\$66,508	\$723	\$14,385	\$14,872	\$1,368,783	\$0	\$1,368,783
131 Investments - Unrestricted	\$10,432,734			\$185,901	\$7,055	\$5,496,829		\$110,465	\$132,172	\$3,652,508	\$20,017,464		\$20,017,464
132 Investments - Restricted	\$2,139,782			\$20,495					\$0		\$2,160,277		\$2,160,277
135 Investments - Restricted for Payment of Current Liability	\$0								\$0		\$0		\$0
142 Prepaid Expenses and Other Assets	\$352,323			\$31,383		\$1,800	\$13,704	\$45	\$0	\$68,312	\$467,567		\$467,567
143 Inventories	\$34,676								\$0	\$32,314	\$66,990		\$66,990
143.1 Allowance for Obsolete Inventories	-\$1,782								\$0	-\$1,616	-\$3,398		-\$3,398
144 Inter Program Due From	\$0								\$0		\$0		\$0
145 Assets Held for Sale	\$0						\$343,200		\$0		\$343,200		\$343,200
150 Total Current Assets	\$22,191,134	\$0	\$0	\$601,993	\$35,270	\$8,913,983	\$523,414	\$249,952	\$213,450	\$6,821,918	\$39,561,114	\$0	\$39,561,114
161 Land	\$3,543,323					\$122,028	\$214,400		\$0		\$3,879,751		\$3,879,751
162 Buildings	\$224,209,709					\$2,882,306			\$0	\$18,119	\$227,110,134		\$227,110,134
163 Furniture, Equipment & Machinery - Dwellings	\$0								\$0		\$0		\$0
164 Furniture, Equipment & Machinery - Administration	\$803,526			\$25,766			\$21,183		\$0	\$928,858	\$1,779,333		\$1,779,333
165 Leasehold Improvements	\$0								\$0		\$0		\$0
166 Accumulated Depreciation	-\$170,877,089			-\$25,766		-\$1,243,335	-\$21,183		\$0	-\$889,147	-\$173,056,520		-\$173,056,520
167 Construction in Progress	\$5,767,154					\$122,132			\$0		\$5,889,286		\$5,889,286
168 Infrastructure	\$0								\$0		\$0		\$0

160 Total Capital Assets, Net of Accumulated Depreciation	\$63,446,623	\$0	\$0	\$0	\$0	\$1,883,131	\$214,400	\$0	\$0	\$57,830	\$65,601,984	\$0	\$65,601,984
171 Notes, Loans and Mortgages Receivable - Non-Current	\$8,734,838					\$880,442	\$592,139		\$0		\$10,207,419		\$10,207,419
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due									\$0				
173 Grants Receivable - Non Current									\$0				
174 Other Assets	\$0					\$0	\$6,520,800		\$0		\$6,520,800		\$6,520,800
176 Investments in Joint Ventures						\$13,169			\$0		\$13,169		\$13,169
180 Total Non-Current Assets	\$72,181,461	\$0	\$0	\$0	\$0	\$2,776,742	\$7,327,339	\$0	\$0	\$57,830	\$82,343,372	\$0	\$82,343,372
200 Deferred Outflow of Resources									\$0				
290 Total Assets and Deferred Outflow of Resources	\$94,372,595	\$0	\$0	\$601,993	\$35,270	\$11,690,725	\$7,850,753	\$249,952	\$213,450	\$6,879,748	\$121,894,486	\$0	\$121,894,486
311 Bank Overdraft	\$0								\$0		\$0		\$0
312 Accounts Payable <= 90 Days	\$143,900			\$18,494		\$7,054	\$4,969	\$11,268	\$0	\$26,452	\$212,137		\$212,137
313 Accounts Payable >90 Days Past Due	\$0								\$0		\$0		\$0
321 Accrued Wage/Payroll Taxes Payable	\$177,529			\$27,008			\$751	\$2,702	\$0	\$106,380	\$314,370		\$314,370
322 Accrued Compensated Absences - Current Portion	\$391,116			\$54,297			\$4,110	\$22,624	\$0	\$319,300	\$791,447		\$791,447
324 Accrued Contingency Liability	\$0								\$0		\$0		\$0
325 Accrued Interest Payable	\$355,677					\$8,323			\$0		\$364,000		\$364,000
331 Accounts Payable - HUD PHA Programs	\$0			\$784					\$19,662		\$20,446		\$20,446
332 Account Payable - PHA Projects	\$0								\$0		\$0		\$0
333 Accounts Payable - Other Government	\$146,473								\$0		\$146,473		\$146,473
341 Tenant Security Deposits	\$0								\$0		\$0		\$0
342 Unearned Revenue	\$499,778						\$51,760		\$0		\$551,538		\$551,538
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	\$1,563,861					\$274,144			\$0		\$1,838,005		\$1,838,005
344 Current Portion of Long-term Debt - Operating Borrowings	\$0								\$0		\$0		\$0
345 Other Current Liabilities	\$715			\$35,833				\$5	\$0		\$36,553		\$36,553
346 Accrued Liabilities - Other	\$370,366			\$1,493		\$1,331	\$113	\$942	\$0	\$17,028	\$391,273		\$391,273
347 Inter Program - Due To	\$0								\$0		\$0		\$0
348 Loan Liability - Current									\$0				
310 Total Current Liabilities	\$3,649,415	\$0	\$0	\$137,909	\$0	\$290,852	\$61,703	\$37,541	\$19,662	\$469,160	\$4,666,242	\$0	\$4,666,242
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	\$20,377,442					\$2,044,763			\$0		\$22,422,205		\$22,422,205
352 Long-term Debt, Net of Current - Operating Borrowings	\$0								\$0		\$0		\$0
353 Non-current Liabilities - Other	\$0			\$47,698					\$0		\$47,698		\$47,698
354 Accrued Compensated Absences - Non Current	\$624,650			\$86,420			\$3,502	\$35,786	\$0	\$512,892	\$1,263,250		\$1,263,250
355 Loan Liability - Non Current									\$0				
356 FASB 5 Liabilities	\$0								\$0		\$0		\$0
357 Accrued Pension and OPEB Liabilities									\$0				
350 Total Non-Current Liabilities	\$21,002,092	\$0	\$0	\$134,118	\$0	\$2,044,763	\$3,502	\$35,786	\$0	\$512,892	\$23,733,153	\$0	\$23,733,153
300 Total Liabilities	\$24,651,507	\$0	\$0	\$272,027	\$0	\$2,335,615	\$65,205	\$73,327	\$19,662	\$982,052	\$28,399,395	\$0	\$28,399,395

400 Deferred Inflow of Resources									\$0				
508.3 Nonspendable Fund Balance									\$0				
508.4 Net Investment in Capital Assets	\$41,505,320		\$0				-\$435,776	\$214,400	\$0	\$57,830	\$41,341,774		\$41,341,774
509.3 Restricted Fund Balance									\$0				
510.3 Committed Fund Balance									\$0				
511.3 Assigned Fund Balance									\$0				
511.4 Restricted Net Position	\$0		\$0	\$32,731					\$0		\$32,731		\$32,731
512.3 Unassigned Fund Balance									\$0				
512.4 Unrestricted Net Position	\$28,215,768	\$0	\$0	\$297,235	\$35,270	\$9,790,886	\$7,571,148	\$176,625	\$193,788	\$5,839,866	\$52,120,586		\$52,120,586
513 Total Equity - Net Assets / Position	\$69,721,088	\$0	\$0	\$329,966	\$35,270	\$9,355,110	\$7,785,548	\$176,625	\$193,788	\$5,897,696	\$93,495,091	\$0	\$93,495,091
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$94,372,595	\$0	\$0	\$601,993	\$35,270	\$11,690,725	\$7,850,753	\$249,952	\$213,450	\$6,879,748	\$121,894,486	\$0	\$121,894,486

Knoxville's Community Development Corp. (TN003)

KNOXVILLE, TN

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2015

	Project Total	14.896 PIH Family Self- Sufficiency Program	14.218 Community Development Block Grants/ Entitlement Grants	14.871 Housing Choice Vouchers	14.879 Mainstream Vouchers	6.2 Component Unit - Blended	2 State/Local	1 Business Activities	14.856 Lower Income Housing Assistance Program - Section 8 Moderate	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$4,725,370								\$0		\$4,725,370		\$4,725,370
70400 Tenant Revenue - Other	\$194,921								\$0		\$194,921		\$194,921
70500 Total Tenant Revenue	\$4,920,291	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,920,291	\$0	\$4,920,291
70600 HUD PHA Operating Grants	\$15,329,323	\$90,677		\$21,572,667	\$526,865				\$515,448		\$38,034,980		\$38,034,980
70610 Capital Grants	\$3,249,324								\$0		\$3,249,324		\$3,249,324
70710 Management Fee									\$0	\$2,726,765	\$2,726,765	-\$2,726,765	\$0
70720 Asset Management Fee									\$0	\$422,230	\$422,230	-\$422,230	\$0
70730 Book Keeping Fee									\$0	\$640,620	\$640,620	-\$640,620	\$0
70740 Front Line Service Fee									\$0	\$868,700	\$868,700	-\$868,700	\$0
70750 Other Fees									\$0				
70700 Total Fee Revenue									\$0	\$4,658,315	\$4,658,315	-\$4,658,315	\$0
70800 Other Government Grants	\$0		\$174,400			\$374,382			\$0		\$548,782		\$548,782
71100 Investment Income - Unrestricted	\$104,284			\$2,025	\$102	\$54,406	\$45	\$1,248	\$1,166	\$32,084	\$195,360		\$195,360
71200 Mortgage Interest Income	\$0								\$0		\$0		\$0
71300 Proceeds from Disposition of Assets Held for Sale	\$0								\$0		\$0		\$0
71310 Cost of Sale of Assets	\$0								\$0		\$0		\$0
71400 Fraud Recovery	\$65,850			\$241,506					\$280		\$307,636		\$307,636
71500 Other Revenue	\$464,421			\$4,455		\$193,241	\$151,255	\$270,093	\$287	\$302,018	\$1,385,770	-\$279,944	\$1,105,826
71600 Gain or Loss on Sale of Capital Assets	\$800								\$0	\$18,610	\$19,410		\$19,410
72000 Investment Income - Restricted	\$46,278			\$0					\$0		\$46,278		\$46,278
70000 Total Revenue	\$24,180,571	\$90,677	\$174,400	\$21,820,853	\$526,967	\$622,029	\$151,300	\$271,341	\$517,181	\$5,011,027	\$53,366,146	-\$4,938,259	\$48,427,887
91100 Administrative Salaries	\$1,992,098			\$397,874	\$28,915	\$3,219	\$28,266	\$18,145	\$39,035	\$1,915,664	\$4,423,216		\$4,423,216
91200 Auditing Fees	\$32,240			\$36,820	\$1,500	\$470	\$690		\$4,000	\$3,580	\$79,300		\$79,300
91300 Management Fee	\$2,148,133			\$503,040	\$14,400		\$50,980		\$10,212		\$2,726,765	-\$2,726,765	\$0
91310 Book-keeping Fee	\$310,838			\$314,400	\$9,000				\$6,382		\$640,620	-\$640,620	\$0
91400 Advertising and Marketing	\$3,836			\$432		\$3,375		\$1,146	\$0	\$920	\$9,709		\$9,709
91500 Employee Benefit contributions - Administrative	\$825,671			\$205,001		\$1,060	\$21,818	\$4,718	\$0	\$641,775	\$1,700,043		\$1,700,043
91600 Office Expenses	\$359,810			\$100,068		\$787	\$1,508	\$2,819	\$0	\$504,069	\$969,081		\$969,081
91700 Legal Expense	\$99,152					\$2,619	\$5,350		\$0	\$42,955	\$150,075		\$150,075
91800 Travel	\$30,566			\$5,020			\$238	\$562	\$0	\$64,908	\$101,294		\$101,294
91810 Allocated Overhead	\$0								\$0		\$0		\$0
91900 Other	\$558,088			\$180,869		\$57,531	\$3,070	\$256	\$0	\$84,962	\$884,776	-\$60,304	\$824,472
91000 Total Operating - Administrative	\$5,360,432	\$0	\$0	\$1,743,544	\$53,815	\$69,061	\$111,920	\$27,646	\$59,629	\$3,258,833	\$11,684,880	-\$3,427,689	\$8,257,191
92000 Asset Management Fee	\$422,230								\$0		\$422,230	-\$422,230	\$0

92100 Tenant Services - Salaries	\$55,084	\$71,106		\$1				\$67,083	\$0		\$193,274		\$193,274
92200 Relocation Costs	\$4,123								\$0		\$4,123		\$4,123
92300 Employee Benefit Contributions - Tenant Services	\$16,689	\$19,571		\$24,637				\$26,154	\$0		\$87,051		\$87,051
92400 Tenant Services - Other	\$313,897							\$161,383	\$0		\$475,280		\$475,280
92500 Total Tenant Services	\$389,793	\$90,677	\$0	\$24,638	\$0	\$0	\$0	\$254,620	\$0	\$0	\$759,728	\$0	\$759,728
93100 Water	\$534,788						\$150	\$174	\$0	\$8,930	\$544,042		\$544,042
93200 Electricity	\$1,429,275						\$4,957	\$1,188	\$0	\$45,849	\$1,481,269		\$1,481,269
93300 Gas	\$18,106						\$497		\$0	\$13,136	\$31,739		\$31,739
93400 Fuel	\$0								\$0		\$0		\$0
93500 Labor	\$0								\$0		\$0		\$0
93600 Sewer	\$1,288,253						\$203	\$71	\$0	\$3,771	\$1,292,298		\$1,292,298
93700 Employee Benefit Contributions - Utilities	\$0								\$0		\$0		\$0
93800 Other Utilities Expense	\$0								\$0		\$0		\$0
93000 Total Utilities	\$3,270,422	\$0	\$0	\$0	\$0	\$5,807	\$1,433	\$0	\$0	\$71,686	\$3,349,348	\$0	\$3,349,348
94100 Ordinary Maintenance and Operations - Labor	\$1,388,241								\$0	\$334,453	\$1,722,694		\$1,722,694
94200 Ordinary Maintenance and Operations - Materials and Other	\$635,492			\$694		\$41	\$60	\$606	\$0	\$33,905	\$670,798		\$670,798
94300 Ordinary Maintenance and Operations Contracts	\$3,460,236			\$2,234		\$21,789	\$4,069		\$0	\$151,345	\$3,639,673	-\$868,700	\$2,770,973
94500 Employee Benefit Contributions - Ordinary Maintenance	\$723,415								\$0	\$167,245	\$890,660		\$890,660
94000 Total Maintenance	\$6,207,384	\$0	\$0	\$2,928	\$0	\$21,830	\$4,129	\$606	\$0	\$686,948	\$6,923,825	-\$868,700	\$6,055,125
95100 Protective Services - Labor	\$0								\$0		\$0		\$0
95200 Protective Services - Other Contract Costs	\$600,138								\$0		\$600,138		\$600,138
95300 Protective Services - Other	\$0								\$0		\$0		\$0
95500 Employee Benefit Contributions - Protective Services	\$0								\$0		\$0		\$0
95000 Total Protective Services	\$600,138	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$600,138	\$0	\$600,138
96110 Property Insurance	\$245,140			\$12		\$2,222	\$2		\$0	\$5,432	\$252,808		\$252,808
96120 Liability Insurance	\$99,843			\$15,172		\$514	\$84		\$0	\$118	\$115,731		\$115,731
96130 Workmen's Compensation	\$95,358			\$2,190			\$274	\$276	\$0	\$37,920	\$136,018		\$136,018
96140 All Other Insurance	\$23,520			\$5,171		\$17	\$410	\$90	\$0	\$9,108	\$38,314		\$38,314
96100 Total Insurance Premiums	\$463,861	\$0	\$0	\$22,545	\$0	\$2,753	\$770	\$366	\$0	\$52,576	\$542,871	\$0	\$542,871
96200 Other General Expenses	\$537,241			\$17,768		\$26			\$153		\$555,188	-\$219,640	\$335,548
96210 Compensated Absences	\$523,784			\$96,413			\$14,436	\$25,818	\$0	\$176,565	\$837,016		\$837,016
96300 Payments in Lieu of Taxes	\$146,473								\$0		\$146,473		\$146,473
96400 Bad debt - Tenant Rents	\$275,356			\$161,336					\$87		\$436,779		\$436,779
96500 Bad debt - Mortgages	\$0								\$0		\$0		\$0
96600 Bad debt - Other	\$0					\$3,698			\$0		\$3,698		\$3,698
96800 Severance Expense	\$0								\$0		\$0		\$0
96000 Total Other General Expenses	\$1,482,854	\$0	\$0	\$275,517	\$0	\$3,724	\$14,436	\$25,818	\$240	\$176,565	\$1,979,154	-\$219,640	\$1,759,514
96710 Interest of Mortgage (or Bonds) Payable	\$670,810								\$0		\$670,810		\$670,810
96720 Interest on Notes Payable (Short and Long Term)	\$356,640						\$107,305		\$0		\$463,945		\$463,945
96730 Amortization of Bond Issue Costs	\$0								\$0		\$0		\$0

96700 Total Interest Expense and Amortization Cost	\$1,027,450	\$0	\$0	\$0	\$0	\$107,305	\$0	\$0	\$0	\$0	\$1,134,755	\$0	\$1,134,755
96900 Total Operating Expenses	\$20,224,564	\$90,677	\$0	\$2,069,172	\$53,815	\$210,480	\$132,688	\$309,056	\$59,869	\$4,246,608	\$27,396,929	-\$4,938,259	\$22,458,670
97000 Excess of Operating Revenue over Operating Expenses	\$3,956,007	\$0	\$174,400	\$19,751,481	\$473,152	\$411,549	\$18,612	-\$37,715	\$457,312	\$764,419	\$25,969,217	\$0	\$25,969,217
97100 Extraordinary Maintenance	\$0								\$0		\$0		\$0
97200 Casualty Losses - Non-capitalized	\$84,446								\$0		\$84,446		\$84,446
97300 Housing Assistance Payments	\$0			\$20,701,948	\$460,883				\$454,870		\$21,617,701		\$21,617,701
97350 HAP Portability-In	\$0								\$0		\$0		\$0
97400 Depreciation Expense	\$9,875,388					\$102,401			\$0	\$28,025	\$10,005,814		\$10,005,814
97500 Fraud Losses	\$0								\$0		\$0		\$0
97600 Capital Outlays - Governmental Funds									\$0				
97700 Debt Principal Payment - Governmental Funds									\$0				
97800 Dwelling Units Rent Expense	\$0								\$0		\$0		\$0
90000 Total Expenses	\$30,184,398	\$90,677	\$0	\$22,771,120	\$514,898	\$312,881	\$132,688	\$309,056	\$514,739	\$4,274,633	\$59,104,890	-\$4,938,259	\$54,166,631
10010 Operating Transfer In	\$0								\$0		\$0		\$0
10020 Operating transfer Out	\$0								\$0		\$0		\$0
10030 Operating Transfers from/to Primary Government									\$0				
10040 Operating Transfers from/to Component Unit	\$0								\$0		\$0		\$0
10050 Proceeds from Notes, Loans and Bonds									\$0				
10060 Proceeds from Property Sales									\$0				
10070 Extraordinary Items, Net Gain/Loss	\$160,167						-\$77,200		\$0		\$82,967		\$82,967
10080 Special Items (Net Gain/Loss)	\$0								\$0		\$0		\$0
10091 Inter Project Excess Cash Transfer In	\$2,560,122								\$0		\$2,560,122	-\$2,560,122	\$0
10092 Inter Project Excess Cash Transfer Out	-\$2,560,122								\$0		-\$2,560,122	\$2,560,122	\$0
10093 Transfers between Program and Project - In	\$174,400								\$0		\$174,400	-\$174,400	\$0
10094 Transfers between Project and Program - Out	\$0		-\$174,400						\$0		-\$174,400	\$174,400	\$0
10100 Total Other financing Sources (Uses)	\$334,567	\$0	-\$174,400	\$0	\$0	\$0	-\$77,200	\$0	\$0	\$0	\$82,967	\$0	\$82,967
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$5,669,260	\$0	\$0	-\$950,467	\$12,269	\$309,148	-\$58,588	-\$37,715	\$2,442	\$736,394	-\$5,655,777	\$0	-\$5,655,777
11020 Required Annual Debt Principal Payments	\$1,499,782	\$0	\$0	\$0	\$0	\$602,902	\$0	\$0	\$0	\$0	\$2,102,684		\$2,102,684
11030 Beginning Equity	\$75,390,348	\$0	\$0	\$1,280,433	\$23,001	\$9,045,962	\$7,844,136	\$214,340	\$191,346	\$5,161,302	\$99,150,868		\$99,150,868
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0								\$0	\$0	\$0		\$0
11050 Changes in Compensated Absence Balance									\$0				
11060 Changes in Contingent Liability Balance									\$0				
11070 Changes in Unrecognized Pension Transition Liability									\$0				
11080 Changes in Special Term/Severance Benefits Liability									\$0				
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents									\$0				
11100 Changes in Allowance for Doubtful Accounts - Other									\$0				
11170 Administrative Fee Equity				\$297,235					\$0		\$297,235		\$297,235
11180 Housing Assistance Payments Equity				\$32,731					\$0		\$32,731		\$32,731

11190 Unit Months Available	41994		0	43162	1200				984	0	87340		87340
11210 Number of Unit Months Leased	41210		0	41920	1200				852	0	85182		85182
11270 Excess Cash	\$14,446,852								\$0		\$14,446,852		\$14,446,852
11610 Land Purchases	\$0								\$0	\$0	\$0		\$0
11620 Building Purchases	\$3,516,636								\$0	\$0	\$3,516,636		\$3,516,636
11630 Furniture & Equipment - Dwelling Purchases	\$0								\$0	\$0	\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$11,669								\$0	\$21,434	\$33,103		\$33,103
11650 Leasehold Improvements Purchases	\$0								\$0	\$0	\$0		\$0
11660 Infrastructure Purchases	\$0								\$0	\$0	\$0		\$0
13510 CFFP Debt Service Payments	\$1,684,883								\$0	\$0	\$1,684,883		\$1,684,883
13901 Replacement Housing Factor Funds	\$0								\$0	\$0	\$0		\$0

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION

Knoxville, Tennessee

CERTIFICATION OF ACTUAL CAPITAL FUND

MODERNIZATION COSTS

JUNE 30, 2015

PROGRAM	TN37P003
	<u>501-08</u>
Funds approved	\$ 5,455,293
Funds expended	<u>5,455,293</u>
Excess of funds approved	<u>\$</u>
Funds advanced	\$ 5,455,293
Funds expended	<u>5,455,293</u>
Excess of funds advanced	<u>\$</u>

The distribution of costs as shown on the Actual Modernization Cost Certificate submitted to HUD for approval is in agreement with the PHA's records.

All modernization costs have been paid and all related liabilities have been discharged through payment.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor:

CFDA Num ber	Program Title	Pass Through Entity	Federal Expenditures
U.S. Department of Housing and Urban Development			
14.850	Low Rent Public Housing	NA	\$ 14,484,440
14.872	Capital Fund Program	NA	4,094,207
	Housing Voucher Cluster		
14.871	Housing Choice Voucher Program	NA	21,572,667
14.879	Mainstream Voucher Program	NA	526,865
	Total Housing Voucher Cluster		<u>22,099,532</u>
14.896	PIH Family Self-Sufficiency Program		90,677
14.856	Section 8 Housing Assistance Payments - Moderate Rehabilitation	NA	515,448
14.218	Community Development Block Grant	County of Knox	174,400
Total U.S. Department of HUD			<u>41,458,704</u>
Total Federal Awards Expenditures			<u>\$ 41,458,704</u>

Notes to the Schedule of Expenditures of Federal Awards

A. Basis of Accounting

This schedule is prepared on the accrual basis of accounting.

B. Basis of Presentation

The accompanying Schedule of Federal Awards (the Schedule) includes the federal grant activity of the Authority under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations". Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

C. Reconciliation of Total Federal Awards Expenditures to Financial Data Schedule

FDS line 706	HUD PHA Grants	\$ 38,034,980
FDS line 706.1	Capital Grants	3,249,324
FDS line 708	Other government grants	548,782
	Less: Local TIF proceeds	<u>(374,382)</u>
		\$ 41,458,704

SINGLE AUDIT SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Knoxville's Community Development Corporation
Knoxville, Tennessee

HUD, Knoxville Field Office
710 Locust Street, S. W.
Knoxville, Tennessee 37902-2526

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Knoxville's Community Development Corporation (the Authority), which include the statement of net position as of June 30, 2015, and the related statements of revenue, expenses and changes in net position, cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon December 7, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 7, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
December 7, 2015

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Knoxville's Community Development Corporation
Knoxville, Tennessee

HUD, Knoxville Field Office
710 Locust Street, S. W.
Knoxville, Tennessee 37902-2526

Report on Compliance for Each Major Program

We have audited Knoxville's Community Development Corporation's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2015. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133)*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Program

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirements of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
December 7, 2015

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

SECTION SUMMARY OF AUDITORS' RESULTS

Basic Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	None Reported
Noncompliance material to basic financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit finding disclosed that is required to be reported in accordance with section 510(a) of Circular A-133?	No
Identification of major programs:	

CFDA Number	Name of Federal Program
14.850	Low Rent Public Housing
14.872	Capital Fund Program

Dollar threshold used to distinguish between type A and type B programs:	\$1,243,761
Auditee qualified as low-risk auditee?	Yes

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

SECTION II -BASIC FINANCIAL STATEMENT FINDINGS

There are no Basic Financial Statement Findings.

SECTION III -FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no Federal Award Findings and Questioned Costs.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no Prior Audit Findings.

**KNOXVILLE'S COMMUNITY
DEVELOPMENT CORPORATION
Knoxville, Tennessee**

**REPORT ON AUDIT OF BASIC FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION AND SINGLE AUDIT**

FOR THE YEAR ENDED JUNE 30, 2015

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CERTIFIED PUBLIC ACCOUNTANTS
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DeBary, Florida 32753-0848

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Knoxville's Community Development Corporation
Knoxville, Tennessee

HUD, Knoxville Field Office
710 Locust Street, S. W.
Knoxville, Tennessee 37902-2526

Report on the Financial Statements

We have audited the accompanying financial statements of the Knoxville's Community Development Corporation (the Authority) which include the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, cash flows for the year then ended, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting Principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i-viii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the Financial Data Schedule, and the other supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information referred to above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 7, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.


Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
December 7, 2015

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

Knoxville's Community Development Corporation's (KCDC) Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of KCDC's financial activity, (c) identify changes in KCDC's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual program issues or concerns.

Since the MD&A is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with KCDC's basic financial statements (see table of contents).

Financial Highlights – 2015

- KCDC's total net position decreased by \$5.6 million (or -5.6%) during fiscal year 2015. Since KCDC engages only in business-type activities, the decrease is all in the category of business-type net position. Net Position was \$93.5 million and \$99.1 million for 2015 and 2014 respectively. This decrease in net position is primarily due to the decrease this year in Net Investment in Capital Assets due to current year depreciation and the decrease in Restricted Net Position due to the continued reduction in agency cash as a result of changes in cash management procedures in the Housing Choice Voucher program.
- The business-type activities revenue decreased by \$.3 million (or -.6%) during fiscal year 2015. Revenues were \$48.4 million and \$48.7 million for 2015 and 2014 respectively. The decrease in revenue from last fiscal year is primarily due to the decrease in other revenue from prior year which included local capital revenues (State/Local) and non-dwelling rents from properties that were sold in prior year (Component Units).
- The total expenses of KCDC programs increased by \$5.3 million (or 10.9%). Total expenses were \$54.1 million and \$48.8 million for 2015 and 2014 respectively. The increase in expenses from last fiscal year is primarily due to the significant extraordinary item gain in assets held for sale (State/Local) from prior year. Not including this item, the total expenses of KCDC programs decreased by \$.1 million (or -.2%). Total expenses were \$54.2 million and \$54.3 million for 2015 and 2014 respectively. This decrease is primarily due to a decrease in housing assistance payments from the prior year.

Using This Annual Report

The Report includes three major sections, the "Management's Discussion and Analysis (MD&A)", "Basic Financial Statements", and "Supplemental Information":

MD&A

~ Management Discussion and Analysis (new)

Basic Financial Statements

~ Authority-wide Basic Financial Statements (new)

~ Notes to Basic Financial Statements (expanded/restructured)

Supplemental Information

~ Supplemental Information

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Using This Annual Report (Continued)

The primary focus of KCDC's basic financial statement (summarized program-type information) has been discarded. The new and clearly preferable focus is on both KCDC as a whole (Authority-wide). This perspective (Authority-wide) allows the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance KCDC's accountability.

Authority-Wide Basic Financial Statements

The Authority-wide basic financial statements are designed to be corporate-like in that all business type activities are consolidated into columns which add to a total for KCDC.

These Statements include a **Statement of Net Position**, which is similar to a Balance Sheet. The Statement of Net Position reports all financial and capital resources for KCDC. The statement is presented in the format where assets and deferred outflow of resources minus liabilities and deferred inflow of resources, equals "Net Position", formerly known as Net Assets. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-Current".

The focus of the Statement of Net Position (the "Unrestricted Net Position") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for KCDC. Net Position (formerly Net Assets) is reported in three broad categories:

Net Investment in Capital Assets: This component of Net Position consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: This component of Net Position consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Position: Consists of Net Position that do not meet the definition of "Net Investment in Capital Assets", or "Restricted Net Position".

The Authority-wide basic financial statements also include a **Statement of Revenues, Expenses and Changes in Net Position** (similar to an Income Statement). This Statement includes Operating Revenues, such as Rental Income, Operating Expenses, such as administrative, utilities, maintenance, and depreciation, and Nonoperating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Net Position is the "Change in Net Position", which is similar to Net Income or Loss.

Finally, a **Statement of Cash Flows** is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Authority-Wide Statement

Statement of Net Position

The following table reflects the condensed Statement of Net Position compared to prior year. KCDC is engaged only in Business-Type Activities.

Table 1 – Statement of Net Position (in millions)

	<u>2015</u>	<u>2014</u>	<u>Net Change</u>	<u>% Change</u>
Assets:				
Current and Restricted Assets	\$ 39.6	\$ 40.3	\$ (0.7)	-1.7%
Capital Assets, Net	65.6	73.0	(7.4)	-10.1%
Other Assets	16.7	16.9	(0.2)	-1.2%
Total Assets	121.9	130.2	(8.3)	-6.4%
Deferred Outflow of Resources	-	-	-	NA
Total Assets & Deferred Outflow of Resources	121.9	130.2	(8.3)	-6.4%
Liabilities				
Current Liabilities	4.7	6.8	(2.1)	-30.9%
NonCurrent Liabilities	23.7	24.3	(0.6)	-2.5%
Total Liabilities	28.4	31.1	(2.7)	-8.7%
Deferred Inflow of Resources	-	-	-	NA
Total Liabilities & Deferred Inflow of Resources	28.4	31.1	(2.7)	-8.7%
Net Position				
Net Investment in Capital Assets	41.3	48.6	(7.3)	-15.0%
Restricted Net Position	0.0	0.9	(0.9)	-96.7%
Unrestricted Net Position	52.2	49.6	2.6	5.2%
Total Equity/Net Assets/Position	\$ 93.5	\$ 99.1	\$ (5.6)	-5.6%

For more detailed information see the Statement of Net Position.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Major Factors Affecting the Statement of Net Position

Total Assets and Deferred Outflow of Resources decreased by \$8.3 million primarily due to a decrease in net capital assets due to current year depreciation this year. Total Liabilities and Deferred Inflow of Resources decreased by \$2.7 million which is primarily due to continued note and bond reduction this year. Total Equity/Net Position decreased by \$5.6 million this year. This decrease is primarily due to the decrease in net investment in capital assets noted above and the decrease in restricted net position due to continued cash reduction as a result of cash management procedures in the Housing Choice Voucher program.

Table 2 – Change in Unrestricted Net Position (in millions)

Unrestricted Net Position, June 30, 2014	\$ 49.6
Results of Operations and extraordinary items - FY15	(5.7)
Adjustments:	
Depreciation Expense	<u>10.0</u>
Adjusted results from operations	4.3
Net investment in Capital Assets and Restricted Net Position related adjustments	<u>(1.7)</u>
Unrestricted Net Position, June 30, 2015	<u>\$ 52.2</u>

While the result of operations is a significant measure of KCDC's activities, the analysis of the changes in Unrestricted Net Position provides a clearer change in financial well-being.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Table 3 – Statement of Revenues, Expenses and Changes in Net Position (in millions)

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	<u>2015</u>	<u>2014</u>	<u>Net Change</u>	<u>% Change</u>
Including Extraordinary items:				
Revenues				
Tenant Rents/Other	\$ 4.9	\$ 4.7	\$ 0.2	4.3%
Program Subsidies-Grants	41.8	41.2	0.6	1.5%
Interest Income	0.3	0.2	0.1	50.0%
Other Revenues	1.4	2.6	(1.2)	-46.2%
Total Revenues	48.4	48.7	(0.3)	-0.6%
Expenses				
Administrative	8.3	8.0	0.3	3.8%
Tenant Services	0.8	0.8	-	0.0%
Utilities	3.3	3.2	0.1	3.1%
Maintenance	6.1	6.2	(0.1)	-1.6%
Protective Services	0.6	0.5	0.1	20.0%
General	2.3	2.2	0.1	4.5%
Interest & Amortization	1.1	1.3	(0.2)	-15.4%
Extraordinary Maintenance & Casualty Losses	0.1	0.3	(0.2)	-66.7%
Housing Assistance Payments	21.6	21.9	(0.3)	-1.4%
Depreciation	10.0	9.9	0.1	1.0%
Extraordinary Items, Net Loss/(Gain)	(0.1)	(5.5)	5.4	-98.2%
Total Expenses	54.1	48.8	5.3	10.9%
Decrease in Net Position	(5.7)	(0.1)	(5.6)	5600.0%
Excluding Extraordinary items:				
Revenues				
Tenant Rents/Other	4.9	4.7	0.2	4.3%
Program Subsidies-Grants	41.8	41.2	0.6	1.5%
Interest Income	0.3	0.2	0.1	50.0%
Other Revenues	1.4	2.6	(1.2)	-46.2%
Total Revenues	48.4	48.7	(0.3)	-0.6%
Expenses				
Administrative	8.3	8.0	0.3	3.8%
Tenant Services	0.8	0.8	-	0.0%
Utilities	3.3	3.2	0.1	3.1%
Maintenance	6.1	6.2	(0.1)	-1.6%
Protective Services	0.6	0.5	0.1	20.0%
General	2.3	2.2	0.1	4.5%
Interest & Amortization	1.1	1.3	(0.2)	-15.4%
Extraordinary Maintenance & Casualty Losses	0.1	0.3	(0.2)	-66.7%
Housing Assistance Payments	21.6	21.9	(0.3)	-1.4%
Depreciation	10.0	9.9	0.1	1.0%
Total Expenses	54.2	54.3	(0.1)	-0.2%
Decrease in Net Position	\$ (5.8)	\$ (5.6)	\$ (0.2)	3.6%

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Position

The decrease in revenue from last fiscal year is primarily due to the decrease in other revenue from prior year which included local capital revenues (State/Local) and non-dwelling rents from properties that were sold in prior year (Component Units). The increase in expenses from last fiscal year is primarily due to the significant extraordinary item gain in assets held for sale (State/Local) from prior year. Not including this item, the total expenses of KCDC programs decreased due to a decrease in housing assistance payments from the prior year.

Budgetary Highlights

For the year ended June 30, 2015, budgets were prepared by KCDC and were approved by the Board of Commissioners. The budgets were primarily used as a management tool and have no legal stature. The budgets were prepared in accordance with the accounting procedures prescribed by the applicable funding agency.

As indicated by the excess of expenses over revenues, KCDC's net position decreased during the fiscal year. This decrease is attributable to less than full eligibility funding as compared to current level expenses.

Capital Assets and Debt Administration

Capital Assets

For the year ended June 30, 2015, KCDC had 65.6 million invested in a variety of capital assets as reflected in the following schedule, which represents a decrease (deductions and depreciation) of \$7.4 million from the end of last year. This decrease is primarily due to current year depreciation as a result of current year additions to the depreciation schedule.

Table 4 – Capital Assets at Year-End (Net of Depreciation) (in millions)

Business-type Activities:

	Business-type Activities			
	2015	2014	Net Change	% Change
Land	\$ 3.9	\$ 3.9	\$ -	0.0%
Buildings	227.1	224.3	2.8	1.2%
Furniture/Equipment	1.8	1.9	(0.1)	-5.3%
Accumulated Depreciation	(173.1)	(163.2)	(9.9)	6.1%
Construction in Progress	5.9	6.1	(0.2)	-3.3%
Capital Assets, Net	\$ 65.6	\$ 73.0	\$ (7.4)	-10.1%

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Capital Assets and Debt Administration (Continued)

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in the notes to the financial statements.

Table 5 – Change in Capital Assets

	<u>Business Type Activities</u>
Beginning Balance 6/30/2014	\$ 73.0
Additions	2.6
Retirements - Net of depreciation	<u>(10.0)</u>
Ending Balance 6/30/2015	<u>\$ 65.6</u>

Debt Outstanding

For the year ended June 30, 2015, KCDC had \$ 24.2 million in debt (bonds, notes, etc.) outstanding compared to \$26.5 last year, showing a \$2.3 million decrease primarily due to current year payment of the Head Start Facility Note which was refinanced in fiscal year 2015.

Table 6 – Outstanding Debt, at Year-End (in millions)

Business Type	<u>2015</u>	<u>2014</u>	<u>Net Change</u>	<u>% Change</u>
Capital Improvements-Long Term	\$ 22.4	\$ 22.9	\$ (0.5)	-2.2%
Current Portion of Debt	<u>1.8</u>	<u>3.6</u>	<u>(1.8)</u>	<u>-50.0%</u>
Total Debt	<u>\$ 24.2</u>	<u>\$ 26.5</u>	<u>\$ (2.3)</u>	<u>-8.7%</u>

Economic Factors

Significant economic factors affecting KCDC are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on fuel costs, utility rates, supplies and other costs

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(Continued)

Financial Contact

The individual to be contacted regarding this report is Tracee B. Pross, Chief Financial Officer, KCDC at (865) 755-6433. Specific requests may be submitted to Tracee B. Pross, Chief Financial Officer, KCDC, P. O. Box 3550, Knoxville, TN 37927-3550.

Roster of Board Members

Chairman:	Dr. Daniel P. Murphy
Vice Chairman:	Jacqueline Arthur
Secretary:	Arthur W. Cate, Jr.
Treasurer:	Phyllis J. Patrick
Commissioner:	David Hutchins
Commissioner:	Dr. John B. Turner
Commissioner:	Lisa Y. Wagoner
Commissioner:	John Winemiller

Roster of Management Officials

Arthur W. Cate, Jr., Executive Director/CEO
Tracee B. Pross, Chief Financial Officer
C. Sean Gilbert, Senior Vice President of Housing
Joyce M. Floyd, Vice President-Strategic Planning and Development

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS

Current assets

Cash and cash equivalents, unrestricted	\$ 15,034,459
Cash and cash equivalents, restricted	95,772
Investments, unrestricted	20,017,464
Investments, restricted	2,160,277
Accrued interest receivable	39,864
Accounts receivable, net of allowance	518,803
Due from other governments	810,116
Inventories, net of allowance for obsolescence of \$3,398	63,592
Prepaid items	467,567
Assets held for sale or conveyance	343,200
Total current assets	39,551,114

Noncurrent assets

Other assets

Notes and mortgages receivable	10,207,419
Investments in joint ventures	13,169
Total other assets	10,220,588

Capital assets

Not being depreciated	9,769,037
Depreciable, net	55,832,947
Total capital assets, net	65,601,984

Other noncurrent assets

Assets held for conveyance or sale	6,520,800
Total noncurrent assets	82,343,372

Total assets

121,894,486

Deferred outflow of resources

-

Total assets and deferred outflow of resources

121,894,486

LIABILITIES

Current liabilities

Vendors and contractors payable	212,137
Accrued wages/taxes payable	314,370
Accrued compensated absences	791,447
Accrued interest payable	364,000
Due to other governments	166,919
Unearned revenues	551,538
Notes and bonds payable	1,838,005
Other current liabilities	36,553
Accrued liabilities	391,273
Total current liabilities	4,666,242

Noncurrent liabilities

Notes and bonds payable	22,422,205
Accrued compensated absences	1,263,250
FSS escrows	47,698
Total noncurrent liabilities	23,733,153

Total liabilities

28,399,395

Deferred inflow of resources

-

Total liabilities and deferred inflow of resources

28,399,395

NET POSITION

Net investment in capital assets	41,341,774
Restricted	32,731
Unrestricted	52,120,586
Total net position	\$ 93,495,091

The accompanying notes are an integral part of these basic financial statements.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

Operating revenues	
Rental revenue	\$ 4,725,370
HUD grants	38,034,980
Other governmental grants	548,782
Other revenue	1,300,747
Total operating revenues	44,609,879
Operating expenses	
Administrative	8,257,191
Tenant services	759,728
Utilities	3,349,348
Ordinary maintenance & operation	6,055,125
Protective services	600,138
Insurance	542,871
General expenses	1,759,514
Housing assistance payments	21,617,701
Depreciation	10,005,814
Total operating expenses	52,947,430
Operating income (loss)	(8,337,551)
Nonoperating revenues (expenses)	
Interest revenue, unrestricted	195,360
Interest revenue, restricted	46,278
Interest expense	(1,134,755)
Fraud recovery	307,636
Other revenue (loss)	82,967
Other expense	(84,446)
Cost of sale of assets	19,410
Total nonoperating revenues	(567,550)
Income (loss) before contributions and transfers	(8,905,101)
Capital contributions	3,249,324
Increase (decrease) in net position	(5,655,777)
Net position, beginning of year	99,150,868
Net position, end of year	\$ 93,495,091

The accompanying notes are an integral part of these basic financial statements.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

Cash Flows From Operating Activities

Receipts from dwelling rentals	\$ 4,400,899
Operating grants	38,042,601
Other receipts	1,265,839
Payments to employees and suppliers	(18,732,027)
Payments to landlords and resident benefits	(23,537,472)
Net cash provided (used) by operating activities	<u>1,439,840</u>

Cash Flows From Noncapital Financing Activities

Principal paid on operating debt	(10,592)
Net cash provided (used) by noncapital financing activities	<u>(10,592)</u>

Cash Flows From Capital and Related Financing Activities

Capital contributions	3,284,385
Purchases of capital assets	(2,594,754)
Proceeds/(loss) from disposals of capital assets	19,410
Principal paid on capital debt	(2,227,034)
Interest paid on capital debt	(1,161,155)
Net cash provided (used) by capital and related financing activities	<u>(2,679,148)</u>

Cash Flows From Investing Activities

Purchase of investments	150,912
Proceeds from homebuyer note activity - net	3,698
Investment in joint ventures	26
Interest	230,972
Net cash provided (used) by investing activities	<u>385,608</u>

Net increase (decrease) in cash and cash equivalents	(864,292)
---	------------------

Balance - beginning of the year	<u>15,994,523</u>
--	--------------------------

Balance - end of the year	<u>\$ 15,130,231</u>
----------------------------------	-----------------------------

Reconciliation of Cash Flows to Statement of Net Position

Cash and cash equivalents, unrestricted	\$ 15,034,459
Cash and cash equivalents, restricted	95,772
	<u>\$ 15,130,231</u>

There are no non-cash transactions.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Reconciliation of Net Operating Income (Loss) to
Net Cash Provided (Used) By Operating Activities

Operating income/(loss)	\$ (8,337,551)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:	
Depreciation elimination	10,005,814
Increase in accounts receivable	(99,857)
Increase in due to/from other governments	(21,763)
Decrease in inventory	16,259
Increase in prepaid expenses	(178,346)
Decrease in other assets	87,992
Increase in accounts payable	156,501
Increase in accrued wages	35,680
Decrease in accrued compensated absences	(35,375)
Decrease in accrued liabilities	(501,498)
Decrease in unearned credits	(71,373)
Other revenue and expense reported as nonoperating	383,357
	<u>\$ 1,439,840</u>

The accompanying notes are an integral part of these basic financial statements.

KNOXVILLE COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

A - Summary of Significant Accounting Policies and Organization:

1. **Organization:** Knoxville's Community Development Corporation, Inc. (KCDC) is a public body corporate and politic pursuant to the Laws of the State of Tennessee which was organized to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD) and other Federal Agencies. The primary purpose of KCDC is to provide safe, decent, sanitary and affordable housing to low-income, elderly and handicapped families in Knoxville, Tennessee.
2. **Reporting Entity:** the governing body of KCDC is its Board of Commissioners, which is composed of seven members appointed by the Mayor of the City of Knoxville. The Board appoints a Chief Executive Officer to administer the business of KCDC. KCDC is not considered a component unit of the City of Knoxville, as the Board independently oversees KCDC's operations.

In determining how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of the *Codification of Governmental Accounting and Financial Reporting Standards and Statement No. 14, (amended) of the Governmental Accounting Standards Board: The Financial Reporting Entity*. These criteria include manifestation of oversight responsibility including financial accountability, appointment of a voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal dependency, potential for dual inclusion, and organizations included in the reporting entity although the primary organization is not financially accountable. Based upon the application of these criteria, the reporting entity has the following blended component units:

- **Passport Development Corporation** is a Section 115 Corporation acting as KCDC's general partner to the limited partnerships formed in conjunction with low-income tax credits.
- **Knoxville's Housing Development Corporation** is a Section 115 Corporation established to acquire affordable housing projects in the Knoxville area for KCDC.
- **Family Investment Foundation, Inc.** is a 501(c)-(3) Corporation established for charitable, social, vocational, recreational and health purposes, and related business ventures.
- **Greater Tennessee Housing Assistance Corporation** is a Section 115 Corporation established for the purpose of funding the construction of six Section 8 New Construction housing projects. All debts have been paid and all projects have been sold. The corporation is now dormant.
- **Five Points I Corporation** is a Section 115 Corporation that is an instrumentality of KCDC. The purpose of the corporation is to be the general partner in a limited partnership formed in conjunction with low-income housing tax credits for the development of the Five Points Senior Building.
- **Townview Towers Affordable Housing Corporation** is a Section 115 Corporation that is an instrumentality of KCDC. The purpose of the corporation is to facilitate the renovation of Townview Towers Apartments. The corporation owns a 40% ownership interest in TVT GP, LLC, General Partner to TVT, LP established to finance transactions related to the rehabilitation of Townview Towers Apartments. This corporation is currently inactive.

These blended component units are reported in the aggregate on the Combining Schedule of Net Assets and Combining Schedule of Revenues, Expenses and Changes in Net Position. Detail of each component unit is also presented in the Supplemental Information section of this report.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

Main programs of KCDC are as follows:

Low Rent Public Housing under Annual Contributions Contract A-2571: This type of housing consists of apartments and single-family dwellings owned and operated by KCDC. Funding is provided by tenant rent payments and subsidies provided by HUD.

Section 8 Housing Assistance Payments Programs under Annual Contributions Contract A-3159 (Housing Choice Vouchers and Moderate Rehabilitation Programs): These are housing programs wherein low rent tenants lease housing units directly from private landlords rather than through KCDC. KCDC contracts with these private landlords to make assistance payments for the difference between the approved contract rent and the actual rent paid by the low rent tenants.

Redevelopment Program administers CDBG and other projects for the City of Knoxville and Knox County.

Public Housing Capital Fund Cluster of Programs are programs for the modernization, demolition and redevelopment of public housing which include Capital Fund Programs.

The Manor is a program whereby KCDC provides meals, laundry service, and has a twenty-four hour staff available for the special needs of the more dependent elderly tenants. This service is provided to those tenants for a fee.

Entrepreneurial Activities is a program which provides technical assistance to other PHA's and local governments.

Central Office Cost Center is a business unit within KCDC that earns income from fees and/or by overseeing other business activity.

Other Programs administered by KCDC are designed to give assistance to residents in a manner which encourages independence and upward mobility and provide professional services to other agencies as needed.

- 3. Basis of Presentation and Accounting:** In accordance with uniform financial reporting standards for HUD housing programs, the basic financial statements are prepared in accordance with U. S. generally accepted accounting principles (GAAP).

Based upon compelling reasons offered by HUD, KCDC reports its basic financial statements as a special purpose government engaged solely in business-type activities, which is similar to the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting and the flow of economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

3. Basis of Presentation and Accounting: (Continued)

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

Net Investment in Capital Assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted - Net position whose use by KCDC is subject to externally imposed stipulations that can be fulfilled by actions of KCDC pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

Unrestricted – Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or KCDC Board or may otherwise be limited by contractual agreements with outside parties.

- 4. Budgets:** Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The capital fund budgets are adopted on a “project length” basis. Budgets are not, however, legally adopted nor legally required for basic financial statement presentation.
- 5. Cash and Cash Equivalents:** For purposes of the Statement of Cash Flows, KCDC considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents.
- 6. Interprogram Receivables and Payables:** Interprogram receivables/payables, when present, are all current, and are the result of the use of the Public Housing Program as the common paymaster for shared costs of KCDC. Cash settlements are made periodically, and all interprogram balances net zero. Offsetting due to/due from balances are eliminated for the basic financial statement presentation.
- 7. Investments:** Investments, when present, are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by HUD.
- 8. Inventories** - Inventories (consisting of materials and supplies) are valued at cost using the moving average method. If inventory falls below cost due to damage, deterioration or obsolescence, KCDC establishes an allowance for obsolete inventory. KCDC relies upon its periodic (annual) inventory for financial reporting purposes. In accordance with the consumption method, inventory is expensed when items are actually placed in service.
- 9. Prepaid Items:** Payments made to vendors for goods or services that will benefit periods beyond the fiscal year end are recorded as prepaid items.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

10. Use of Estimates: The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the basic financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

11. Fair Value of Financial Instruments: The carrying amount of KCDC's financial instruments at June 30, 2015 including cash, investments, accounts receivable, and accounts payable closely approximates fair value.

12. Capital Assets:

- a. Book Value:** All purchased fixed assets are valued at cost when historical records are available. When no historical records are available, fixed assets are valued at estimated historical cost.

Land values were derived from development closeout documentation.

Donated fixed assets are recorded at their fair value at the time they are received.

Donor imposed restrictions are deemed to expire as the asset depreciates.

All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.

- b. Depreciation:** The cost of buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method.

Depreciation commences on modernization and development additions in the year following completion.

The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings	27 years
Building modernization	10 years
Appliances	7 years
Office equipment	7 years
Maintenance equipment	5 years
Automobiles	5 years
Community space equipment	5 years
Computer Equipment	3 years

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

A - Summary of Significant Accounting Policies and Organization: (Continued)

12. Capital Assets: (Continued)

- c. Maintenance and Repairs Expenditures:** Maintenance and repairs expenditures are charged to operations when incurred. Betterments in excess of \$5,000 are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.
- 13. Compensated Absences:** Compensated absences are those absences for which employees will be paid, such as vacation and sick leave computed in accordance with *GASB Statement No. 16*. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of KCDC and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of KCDC and its employees are accounted for in the period in which such services are rendered or in which such events take place.
- 14. Litigation Losses:** KCDC recognizes estimated losses related to litigation in the period in which the occasion giving rise to the loss occurred; the loss is probable and the loss is reasonably estimable.
- 15. Annual Contribution Contracts:** Annual Contribution contracts provide that HUD shall have KCDC to audit and examine the records of public housing authorities. Accordingly, final determination of KCDC's financing and contribution status for the Annual Contribution Contracts is the responsibility of HUD based upon financial reports submitted by KCDC.
- 16. Risk Management -** KCDC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. KCDC carries commercial insurance for all identified risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Additionally, there have been no significant reductions in insurance coverage from the prior year.
- 17. Use of Restricted Assets:** It is KCDC's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.
- 18. Operating Revenues and Expenses:** The principal operating revenues of KCDC's enterprise fund are charges to customers for rents and services. Operating expenses for KCDC's enterprise fund include the cost of providing housing and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

- B - Deposits and Investments:** For purposes of the Statement of Cash Flows, KCDC considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents. Investments are disclosed at Par Value with unamortized premiums and discounts.

1. HUD Deposit and Investment Restrictions

HUD requires authorities to invest excess HUD program funds in obligations of the United States, certificates of deposit or any other federally insured instruments.

HUD also requires that deposits of HUD program funds be fully insured or collateralized at all times. Acceptable security includes FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by KCDC or with an unaffiliated bank or trust company for the account of KCDC.

2. Deposit and Investment Risks

KCDC held the following deposit and investments at June 30, 2015:

Deposits:

Carrying Value
Demand

\$15,129,631

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (Continued)

Investment:

Investment	Maturity Date	Amortized Value	Moody's Rating	S & P Rating	Callable
FFCB	5/9/2016	\$ 999,702	Aaa	AA+	Yes
FFCB	5/23/2016	999,910	Aaa	AA+	Yes
FHLMC	12/19/2016	998,370	Aaa	AA+	Yes
FHLMC	2/22/2017	1,000,567	Aaa	AA+	NO
US TREAS NTS	2/28/2017	1,002,057	Aaa	NR	NO
FHLB	4/17/2017	274,743	Aaa	AA+	Yes
US TREAS NTS	5/31/2017	997,799	Aaa	NR	NO
FHLB	6/5/2017	998,238	Aaa	AA+	Yes
FHLMC	6/30/2017	1,000,000	Aaa	AA+	Yes
FFCB	8/15/2017	897,561	Aaa	AA+	Yes
FHLMC	9/12/2017	1,000,880	Aaa	AA+	Yes
FNMA	9/28/2017	1,002,203	Aaa	AA+	Yes
FFCB	10/10/2017	828,740	Aaa	NR	NO
FFCB	11/20/2017	1,000,000	Aaa	AA+	Yes
FNMA	1/30/2018	1,000,000	Aaa	AA+	Yes
FNMA	2/27/2018	998,696	Aaa	AA+	Yes
FHLB	2/27/2018	999,777	Aaa	AA+	Yes
FHLB	4/27/2018	1,000,626	Aaa	NR	NO
FNMA	4/30/2018	1,001,190	Aaa	AA+	Yes
FMB	5/25/2018	1,000,000	Aaa	AA+	Yes
FNMA	6/19/2018	1,036,900	Aaa	AA+	Yes
Total Securities		<u>\$ 20,037,959</u>			

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (Continued)

Restricted - HCV	\$ 20,495
Unrestricted	<u>20,017,464</u>
	<u>20,037,959</u>
Restricted investments - LRPH	
Revenue fund	172,893
Debt service fund	1
Debt service reserve	1,966,669
Program expense fund	<u>219</u>
	<u>2,139,782</u>
Demand Deposits (Carrying Value)	<u>15,129,631</u>
Total Deposits and Investments	<u>37,307,372</u>
Petty cash on hand	<u>600</u>
Total Cash and Investments	<u><u>\$ 37,307,972</u></u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents - unrestricted	\$ 15,034,459
Cash and cash equivalents - restricted	59,939
Cash restricted for payment of current liabilities	35,833
Investments - unrestricted	20,017,464
Investments - restricted	<u>2,160,277</u>
	<u><u>\$ 37,307,972</u></u>

The investments held in the various trust accounts for bond covenant purposes are invested in open-ended mutual funds which are not subject to custodial credit risk because they do not represent specific individual securities.

Custodial Credit Risk: Exposure to custodial credit related to deposits exists when KCDC holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in KCDC's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when KCDC holds investment that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in KCDC's name.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

B - Deposits and Investments: (Continued)

2. Deposit and Investment Risks (Continued)

KCDC's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. The investment policy also limits acceptable collateral to U.S. Treasury securities obligation of federal agencies, securities of government-sponsored agencies, and other instruments which may be approved by the U.S. Department of HUD. As required by Federal 12 U.S. C.A., Section 1823(e), all financial institutions pledging collateral to KCDC must have a written collateral agreement approved by the board of directors or loan committee.

The investments held in the various trust accounts for bond covenant purposes are invested in open-ended mutual funds which are not subject to custodial credit risk because they do not represent specific individual securities.

At June 30, 2015, KCDC was not exposed to custodial credit as defined above.

Investment Credit Risk: KCDC's investment policy limits unrestricted investments to those allowed by the U.S. Department of HUD. These investment limitations are described in Note A. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. KCDC has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations – rating agencies – as of the year end. Unless there is information to the contrary, obligations of the U. S. government or obligations explicitly guaranteed by the U. S. government are not considered to have credit risk and do not require disclosure of credit quality.

As noted in the schedule of deposits and investment above, at June 30, 2015, the investments held by KCDC mature 05/09/2016 through 06/19/2018. KCDC may sell these investments at fair value at any time.

Concentration of Investment Credit Risk: Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of KCDC. Investments issued or explicitly guaranteed by HUD-approved instruments are excluded from this consideration.

Uncollateralized restricted investments are deposited with the Bank of New York in the amount of \$2,139,782. This represents 9.65% of KCDC's total investment portfolio. The funds are deposited in accordance with Trust Indenture requirements.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

C - Accounts Receivable:

Affiliates	\$ 434,777
Tenant accounts (net of allowance for doubtful accounts of \$59,828)	75,679
Other	<u>8,347</u>
	<u>\$ 518,803</u>

D - Due From Other Governments:

U.S. Department of HUD	\$ 571,825
Local Governments	<u>238,291</u>
	<u>\$ 810,116</u>

E - Prepaid Items:

Prepaid insurance	\$ 192,602
Contractors	211,385
Other prepayments	<u>63,580</u>
	<u>\$ 467,567</u>

F - Assets held for Sale or Conveyance:

In its capacity as a local redevelopment agency, KCDC contracts with other local governmental agencies for various types of redevelopment projects. These projects may range from relatively minor projects such as rehabilitation of family dwellings up to much larger commercial redevelopment endeavors.

In the course of this activity, KCDC often assumes ownership of selected properties during the rehabilitation period, only to transfer or sell these properties in accordance with the contract with the respective local governments.

The current portion is \$343,200. The noncurrent portion is \$6,556,300, with an allowance for doubtful accounts of \$35,500, netting \$6,520,800 in the noncurrent portion.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

G - Notes and Mortgages Receivable:

<u>Type</u>	<u>Reference</u>	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
HOPE VI Loans -				
- Passport Homes LP - a	1	-	\$ 359,386	\$ 359,386
- Passport Homes LP - b	1	-	1,242,000	1,242,000
- Passport Residencies LP - a	2	-	489,718	489,718
- Passport Residencies LP - b	2	-	2,214,951	2,214,951
- Homebuyers forgivable - a	3	-	1,791	1,791
Redevelopment Loan				
- Passport Homes LP	1	-	592,139	592,139
Capital Fund Loan				
- Passport Residencies LP	2	-	270,510	270,510
Capital Funds Loan				
- Eastport Development LP	4	-	100,000	100,000
ARRA Loan				
- Eastport Development LP	4	-	4,058,273	4,058,273
KHDC Loan				
- Eastport Development LP	4	-	128,651	128,651
Passport Dev Corp				
- Eastport Development LP	4	-	750,000	750,000
Totals			<u>\$ 10,207,419</u>	<u>\$ 10,207,419</u>

- 1. Passport Homes Limited Partnership** – KCDC entered into a mixed financing arrangement with Passport Homes L.P. (PHLP) for the rehabilitation of the University Avenue Affordable Housing Project, "Passport Homes", in the Mechanicsville Community. The notes receivable consists of \$1,242,000 in Hope VI grant proceeds, \$359,386 in McKinney funds and \$592,139 in KCDC Redevelopment funds.

The Hope VI funds were provided through HUD as a grant to KCDC.

The McKinney funds were provided through the McKinney Act Refunding Agreement with GTHAC regarding mortgage refunding bonds.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

G - Notes and Mortgages Receivable: (Continued)

In cooperation with HUD, these funds have been loaned to PHLP, and are due 25 years after completion of the project. The capital improvements purchased with these funds are reflected on the financial statements of PHLP.

Interest, along with an outstanding allowance for doubtful accounts, accrues on these notes as follows:

Hope VI loan	2.00% annually
McKinney loan	5.98% annually
Redevelopment loan	2.00% annually

2. **Passport Residences Limited Partnership** – KCDC entered into a mixed financing arrangement with Passport Residences, L.P. (PRLP) for the addition of 50 public housing units as part of Passport Homes in the Mechanicsville Community in Knoxville, Tennessee. The notes receivable consists of \$2,214,951 in Hope VI grant proceeds, \$489,718 in Affordable Housing Program (AHP) Funds, and \$270,510 in KCDC's Capital Fund Program.

The Hope VI funds were provided through HUD as a grant to KCDC.

The Affordable Housing funds were provided through the FHLB as a grant to KCDC.

The Capital Funds were provided through HUD as a grant to KCDC.

In cooperation with HUD, the Hope VI funds have been loaned to PRLP, and are due 25 years after completion of the project. The FHLB funds as well as the proceeds from the Capital Funds Program that have been loaned to PRLP are due 30 years after completion of the project. The capital improvements purchased with these funds are reflected on the financial statements of PRLP.

Interest, along with an offsetting allowance for doubtful accounts, accrues on these notes as follows:

Hope VI loan	.25% annually
AHP FHLB loan	.25% annually
Capital Fund loan	5.23% annually

3. **Homebuyers (forgivable)** – KCDC sells homes to qualifying families and provides soft second mortgages which are forgivable in annual portions contingent upon certain program requirements.
4. **Eastport Development Limited Partnership** - KCDC entered into a mixed financing arrangement with Eastport Development, L.P. (EDLP) for the addition of 60 public housing units as part of The Residences at Eastport II in the Five Points Community in Knoxville, Tennessee. The notes receivable consist of \$100,000 in KCDC's Capital Fund Program, \$4,058,273 in ARRA funds, \$128,651 in Knoxville's Housing Development Corporation (KHDC) funds, and \$750,000 in Passport Development Corporation (PDC) funds.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

G - Notes and Mortgages Receivable: (Continued)

The Capital Funds are provided through HUD as a grant to KCDC.

The ARRA Funds are provided through HUD as a grant to KCDC.

In cooperation with HUD, the Capital and ARRA Funds are being loaned to EDLP, and are due 40 years after completion of the project. The capital improvements purchased with these funds are reflected on the financial statements of EDLP.

	<u>Interest Accrual Rate</u>	<u>Maturity Date</u>
Capital Funds Loan	0% annually	October 1, 2051
ARRA Funds Loan	0% annually	October 1, 2051
KHDC Loan	0% annually	October 1, 2051
Passport Development Corporation Loan	0% annually	October 1, 2051

H - Land, Buildings and Equipment:

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2015</u>
Not being depreciated:					
Land	\$ 3,879,751	\$ -	\$ -	\$ -	\$ 3,879,751
Construction in progress	6,126,037	2,488,629	-	(2,725,380)	5,889,286
Total not being depreciated	10,005,788	2,488,629	-	(2,725,380)	9,769,037
Depreciable:					
Buildings & improvements	224,311,733	73,021	-	2,725,380	227,110,134
Accumulated depreciation	(161,529,673)	(9,920,829)	-	-	(171,450,502)
Net buildings & improvements	62,782,060	(9,847,808)	-	2,725,380	55,659,632
Equipment	1,885,873	33,104	(139,644)	-	1,779,333
Accumulated depreciation	(1,660,677)	(84,985)	139,644	-	(1,606,018)
Net equipment	225,196	(51,881)	-	-	173,315
Net depreciable assets	63,007,256	(9,899,689)	-	2,725,380	55,832,947
TOTAL	\$ 73,013,044	\$ (7,411,060)	\$ -	\$ -	\$ 65,601,984

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

I - Due to Other Governments:

City of Knoxville (PILOT)	\$ 146,473
U.S. Department of HUD	<u>20,446</u>
	<u>\$ 166,919</u>

J - Unearned Revenues:

Local Governments	\$ 51,760
HUD	10,550
Prepaid Rents	47,628
Cable Provider Marketing Share Revenue	<u>441,600</u>
	<u>\$ 551,538</u>

K - Notes and Bonds Payable:

<u>Reference</u>	<u>Interest Expense</u>	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
1	\$ 53,672	\$ 175,400	\$ 583,700	\$ 759,100
2	53,633	98,744	1,461,063	1,559,807
3	670,810	1,135,000	12,935,000	14,070,000
4	356,638	428,861	7,193,743	7,622,604
5	-	-	248,699	248,699
	<u>\$ 1,134,753</u>	<u>\$ 1,838,005</u>	<u>\$ 22,422,205</u>	<u>\$ 24,260,210</u>

All of the following notes and bonds payable are secured directly by real property which was financed.

1. In July 2000, KCDC issued a note to the City of Knoxville, Tennessee in the amount of \$2,540,000. Proceeds from the note were used by KCDC in its Hope VI project in the historic Mechanicsville Redevelopment Area. The note is primarily payable from and secured by a pledge of the Tax Increment Revenues. In the event of a deficiency in such Tax Increment Revenues, this note is generally payable from the Authority's income and revenues. The principal balance is payable on the second business day prior to May 1 and November 1 of each year beginning on November 1, 2000. An additional principal payment of 210,000 was made May 1, 2015 from excess TIF revenues. The outstanding balance as of June 30, 2015 is \$759,100. KCDC anticipates that additional principal payments may be made in 2016 and 2017 which could result in an early payoff of this note in 2017. Future projected payments based upon current amortization schedule are as follows:

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

K - Notes and Bonds Payable: (Continued)

	<u>Principal</u>	<u>Interest</u>
2016	\$ 175,400	\$ 37,955
2017	183,700	29,185
2018	193,400	20,000
2019	203,100	10,330
2020	3,500	175
	<u>\$ 759,100</u>	<u>\$ 97,645</u>

2. On April 15, 2004, KCDC issued a promissory note to SunTrust Bank in the amount of \$2,470,155. The proceeds from the loan were utilized to reimburse KCDC for construction of a Head Start building in order to provide preschool education for qualified low-income eligible children. The note was paid in full in March 2010 and refinanced through SunTrust Bank in the amount of \$2,130,465 bearing interest at 3.1134% annum. The note was paid in full again in May 2015 and refinanced through SunTrust Bank in the amount of \$1,567,500 bearing interest at 2.88% annum. The note is to be paid in monthly increments of \$11,869 for a five year term ending March 15, 2020. The outstanding balance as of June 30, 2015 is 1,559,807. Future projected payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 98,744	\$ 43,678
2017	101,743	40,679
2018	104,655	37,768
2019	107,709	34,713
2020	1,146,956	159,482
	<u>\$ 1,559,807</u>	<u>\$ 316,320</u>

3. KCDC pledged a portion of its annual Capital Fund Program Grant from HUD to secure allocable portion of Bonds issued by KCDC. KCDC's net proceeds, \$22,540,000, is being used to acquire, construct, equip, renovate and improve public housing developments owned and operated by KCDC for rental to be occupied by qualified tenants under the applicable HUD rules and regulations. The bonds are designated "Capital Program Revenue Bonds, Series 2004". The entire proceeds of \$22,540,000 were deposited with the Trustee (Bank of New York), which has been authorized and directed to apply and disburse such monies for the purposes and in the order specified in the Master Trust Indenture. The outstanding balance as of June 30, 2015 is \$14,070,000. During FY 2016, it is anticipated that KCDC will receive HUD approval to redeem the bonds and execute a loan agreement with Capital One Public Funding LLC for payment of the remaining outstanding debt from Public Housing Capital Fund obligations. Subject to this transaction, the Bonds are payable as follows:

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

K - Notes and Bonds Payable: (Continued)

	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,135,000	\$ 614,060
2017	12,935,000	2,682,880
	<u>\$ 14,070,000</u>	<u>\$ 3,296,940</u>

4. On November 9, 2006, KCDC entered into a Master Equipment Lease – Purchase Agreement with National City Commercial Capital Corporation. This agreement is the financing mechanism used to fund the energy equipment replacements and renovations included in the Energy Performance Contract between KCDC and Ameresco, Inc. Energy Performance Contracting is an innovative financing technique that uses cost savings from reduced energy consumption to repay the cost of installing energy conservation measures. The lease payments began 22 months after the start of capital improvements in November 2006 resulting in the first payment being made October 2008. HUD has encouraged Housing Agencies such as KCDC to participate in such Energy Performance Contracts. As a result, KCDC has an outstanding balance on this capital lease as of June 30, 2015 of \$7,622,604. The capital lease is payable as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 428,861	\$ 338,649
2017	448,827	318,682
2018	469,724	297,786
2019	491,593	275,917
2020	514,481	253,029
2021-2025	2,954,798	882,750
2026-2028	2,314,320	180,085
	<u>\$ 7,622,604</u>	<u>\$ 2,546,898</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

K - Notes and Bonds Payable: (Continued)

5. On March 31, 2008, KCDC purchased Valley Oaks Apartments, a Section 8 project based property from Knox Housing Partnership in the amount of \$63,977. As a condition of the sale, KCDC assumed a forgivable note as detailed below:

On August 29, 1994, Knox Housing Partnership purchased Valley Oaks Apartments from HUD for a cost of \$1. In exchange for this bargain purchase price, the Partnership agreed to maintain the property as rental or cooperative housing for a period of thirty years. Because of stipulations in the purchase contract, the project recorded the apartment buildings and land at their fair market value of \$497,400 less the cost of \$1 actually paid. As the HUD requirements are met for the purchase of this property at the bargain price, the Forgivable HUD Advance in the amount of \$497,399 will be reduced and a HUD contribution recognized as follows:

25% of the \$497,399 or \$124,350 on August 30, 2014
50% of the \$497,399 or \$248,699 on August 30, 2024

The outstanding balance as of June 30, 2015 was \$248,699.

6. The Housing Authority as the Redevelopment agency for the City of Knoxville has entered into tax increment financing agreements between various developers and various financial institutions to help developers secure financing within the redevelopment area. The debt is non-recourse debt to KCDC. These agreements are designed to give developers an incentive to redevelop vacant downtown property. The tax increment financing agreement is between KCDC, the developer, and the financial institution. The property tax payments as well as the equity in the property are used as collateral as well as the developer's personal guarantee on the loan. The following tax increment financing agreements have been issued by KCDC:

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

K - Notes and Bonds Payable: (Continued)

Redevelopment Project	Location	Principal(s)	Date Approved	TIF Amount	Project Total
1 Jackson/Depot (Fire Street Lofts)	214 Jackson	David Dewhirst 214 Jackson, LLC	9/28/2004	\$ 1,100,000	\$ 6,400,000
2 Jackson/Depot	122-126 Gay	ELOC Dev. One, LLC Cole Smith	10/25/2005	\$ 500,000	\$ 6,100,000
3 Gay Street Burwell Building	602 S. Gay	Cardinal Investment Properties, LLC Brian Conley	10/25/2005	\$ 855,796	\$ 7,450,000
4 Gay Street (Charter Federal Building / Holston Bldg.)	123 S. Gay	HNB Development, LLC Thomas Grace & Dewhirst	10/25/2005	\$ 1,600,000	\$ 13,725,000
5 World's Fair Park (Candy Factory & Victorian Houses)	Clinch & 11th Street	Kensey, Probasco, Hays	1/17/2006	\$ 1,600,000	\$ 13,407,000
6 Old Knoxville Glove Factory (Citiview@Riverwalk)	445 W. Blount Ave.	Camden Mgm't Inc. & Focus Development, Inc John Gumpert & Brad Johnson	3/28/2006	\$ 2,800,000	\$ 27,550,330
7 Gay Street (Mast General Store - Top 3 floors)	402 Gay	Gay Street Development Partners LLC Johnm Craig, Wayne Balsius & Faris Eid	8/1/2006	\$ 1,441,802	\$ 6,401,000
8 Gay Street (Crimson Building)	302 S. Gay Street	Crimson Inferno, LLC Jeffrey Nash, Buzz Gross	3/13/2007	\$ 350,000	\$ 4,912,572
9 Downtown North/I-275 (Greystone Building - North Central Village)	912 N. Central Ave.	North Central Village, LLC Jeffrey Nash	4/9/2007	\$ 200,000	\$ 2,031,639
10 Jackson / Depot (JFG Warehouse)	129 W. Jackson	Testerman, Testerman & Buckner, LLC Building Project Kyle Testerman	7/31/2007	\$ 240,000	\$ 4,174,256
11 Brownlow (Brownlow School)	1305 Luttrell	KP Jon Kinsey	9/27/2007	\$ 542,284	\$ 5,450,000
12 Jackson / Depot (JFG Lofts)	200-202 W. Jackson	Dewhirst Properties David Dewhirst	1/29/2008	\$ 810,000	\$ 7,560,000
13 Jackson / Depot (SE Glass Building)	100 N. Broadway	Conversion Properties Joe Petre	6/17/2008	\$ 460,123	\$ 4,103,976

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

K - Notes and Bonds Payable: (Continued)

14	Gay Street (500 Block)	516-524 Gay St.	500 Block LLC John Craig	7/29/2008	\$ 812,500	\$ 4,908,189
15	South Waterfront (South Waterfront)	Langford Avenue	City of Knoxville KCDC	12/2008	\$ 22,000,000	\$ 139,000,000
16	Downtown North/I-275 (Fifth Avenue Condos)	605, 607 King St 201, 209 W 5th Ave	Svend Brooks, Tim Wesley, Earl Worsham	3/26/2009	\$ 356,000	\$ 3,734,762
17	Central Bus. Dist. West (Daylight Building)	501 Union Avenue	David Dewhirst, Mark Heinz	6/25/2009	\$ 959,000	\$ 6,745,000
18	Northside Waterfornt (The Landings)	710 East Hill Ave	Aaron White, Hunter Connelly	8/27/2009	\$ 1,500,000	\$ 28,240,321
19	Jackson/Depot (Harold's Building)	131 S. Gay Street	John W. Craig, Timothy Hill, Michael Hatcher	8/27/2009	\$ 129,000	\$ 847,866
20	Market Square (Arnstein Building)	501 Market Street	David Dewhirst Mark Heinz Tim Zitzman Albert Ritchie Chuck Griffin Kelly Headen	12/20/2011	\$ 1,145,000	\$ 8,515,000
21	University Commons (University Commons)	Kingston Pike	Jim Harrison Bud Cullom	4/26/2012	\$ 10,000,000	\$ 62,000,000
22	Northside Waterfront (The Landings, Phase II)	930 Riverside Forest Way	Aaron White, Hunter Connelly	12/31/2012	\$ 715,000	see No. 18
23	Gay Street (JC Penney Buildings)	412,414 and 416 S. Gay Street	Timothy Hill, Michael Hatcher David Dewhirst Mark Heinz	11/14/2013	\$ 1,150,000	\$ 7,361,000
24	Jackson/Depot (Magnolia Urban Village)	110 Magnolia Ave. 319 N. Central St.	Jeffrey Nash	8/4/2014	\$ 225,000	\$ 2,100,000

KCDC capitalizes interest cost incurred on funds used to construct or renovate structures. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. There was no interest cost capitalized in 2015.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

L - Other Liabilities:

	<u>Current</u>	<u>Long-Term</u>
FSS escrows	\$ 35,833	\$ 47,698
Other	720	-
	<u>\$ 36,553</u>	<u>\$ 47,698</u>

M - Accrued Liabilities

Contractors	\$ 50,187
Capital lease fee	67,643
Accrued utilities	253,385
Other Accrued Expenses	<u>20,058</u>
	<u>\$ 391,273</u>

N - Schedule of Changes in Noncurrent Liabilities:

	June 30, 2014		Year Ended June 30, 2015		June 30, 2015	
	<u>Long-term Portion</u>	<u>Current Portion</u>	<u>Additions</u>	<u>Payments</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Notes and bonds payable	\$ 22,910,403	\$ 3,587,433	\$ 1,559,807	\$ (3,797,433)	\$ 1,838,005	\$ 22,422,205
Accrued compensated absences	1,315,334	826,822	316,959	(404,418)	791,447	1,263,250
FSS Escrows	60,554	65,116	42,680	(84,819)	35,833	47,698
	<u>\$ 24,286,291</u>	<u>\$ 4,479,371</u>	<u>\$ 1,919,446</u>	<u>\$ (4,286,670)</u>	<u>\$ 2,665,285</u>	<u>\$ 23,733,153</u>

O - Annual Contributions by Federal Agencies

Annual Contributions Contract A-2571 – Pursuant to the Annual Contributions Contract, HUD contributes an operating subsidy for low-rent public housing. The operating subsidy contributions for the year ended June 30, 2015 were \$14,484,440. HUD also contributed additional funds through the Capital fund for modernization and operations in the amount of \$4,094,207.

Annual Contributions Contract A-3159 – Annual Contributions Contract A-3159 for Section 8 programs provides for housing assistance payments to private owners of residential units on behalf of eligible low or very low-income families. The program provides for such payments with respect to existing and moderately rehabilitated housing covering the difference between the maximum rental on a dwelling unit, and the amount of rent contribution by a participating family and related administrative expense. KCDC is also eligible to receive reimbursement for preliminary expenses prior to lease up.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

O - Annual Contributions by Federal Agencies (Continued)

Annual Contributions Contract A-3159 (Continued)

HUD contributions for the year ended June 30, 2015 were as follows:

Housing Choice Voucher Cluster	\$ 22,099,532
Section 8 Moderate Rehabilitation	<u>515,448</u>
	<u>\$ 22,614,980</u>

- P - Defined Contribution Pension Plan:** KCDC provides pension benefits for all its full-time employees through a defined contribution plan entitled "Housing Authority Retirement Trust (HART)". The plan is administered by ADP. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The HART Trustees are authorized to establish and amend plan benefits. Employees are eligible to participate six months after the date of employment. KCDC contributes approximately 12.8% of the employee's base salary each month for employees hired prior to November 1, 2006. For employees hired after October 31, 2006 the employer contribution is 8.8%, while the employee has no required contribution. KCDC's contributions for each employee (and interest allocated to the employee's account) are fully vested after 7 years of continuous service. KCDC contributions for, and interest forfeited by, employees who leave employment before vesting are used to reduce KCDC's current-period contribution requirement.

KCDC's total payroll in fiscal year 2015 was \$7,193,469. Payroll covered by the pension plan was \$6,745,287. KCDC made the required contributions amounting to \$813,430, and employees made elective contributions of \$4,900.

- Q - Post-Employment Health Plan Benefits:** KCDC provides for the accumulation of tax-free monies to be used for health-related costs in a benefit plan known as the "Post Employment Health Plan" administered by Nationwide. The Plan is an agent multiple-employer defined benefit OPEB plan.

KCDC contributes a fixed amount of \$15 per month to each participating employee's universal PEHP account. All regular, full-time employees are enrolled in the plan on the first day of the month following completion of three years of service. Benefits and options are outlined in literature made public by Nationwide, or may be accessed on-line at www.nrsforu.com. Contributions to the PEHP are determined by the Board of Commissioners of KCDC. PEHP benefits available to KCDC employees are established and amended by the PEHP trustees.

KCDC funds the program in a fixed amount per month per participant, and has net all financial obligations of the PEHP. Additionally, KCDC has accrued a liability for PEHP which relate to sick leave conversions which may become available in the future.

The employees do not contribute to this plan.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

- R - Economic Dependency:** KCDC receives approximately 86% of its revenue from HUD. If the amount of revenues received from HUD falls below critical levels, KCDC's reserves could be adversely affected.
- S - Contingencies:**
1. KCDC is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to KCDC in the current and prior years. There were no such examinations for the year ended June 30, 2015.
 2. KCDC is a defendant in various lawsuits and has retained outside counsel to vigorously defend such litigation. The outcome of these cases is currently indeterminable and, therefore, management believes that it is unlikely that resolution of these matters will have a material adverse effect on the financial condition of KCDC.
- T - Conduit Type Debt:** Debt related to the original acquisition and early modernization of the public housing developments is funded, guaranteed and serviced by HUD. There is no debt or pledge of faith and credit on part of KCDC. Accordingly, this debt has not been recorded in the basic financial statements of KCDC. Additionally, HUD no longer provides debt service information to KCDC.
- U - Commitments:** KCDC is engaged in modernization programs funded by HUD and other sources. In this regard, KCDC has entered into construction-type contracts with approximately \$954,557 remaining until completion.
- V - Leasing Activities (as Lessor):** KCDC is the lessor of dwelling units mainly to low-income residents. The rents under the leases are determined generally by the resident's income as adjusted for eligible deductions regulated by HUD, although the resident may opt for a flat rent. Leases may be cancelled by the lessee at any time. KCDC may cancel the lease only for cause.
- Revenues associated with these leases are recorded in the financial statements and schedules as "Rental Revenue". Rental Revenue per dwelling unit generally remains consistent from year to year, but is affected by general economic conditions which impact personal income and local job availability.
- W - Interprogram Transfers:** KCDC will make cash transfers to and between its various programs as outlined in the Federal Regulations and authorized and approved by KCDC's Board of Commissioners. All these programs are part of the Enterprise Fund, therefore there are no interfund transfers.
- X - Other Leases:** KCDC has entered into a 55-year ground lease with Passport Homes, L.P. and a 99-year ground lease with Passport Residences, L.P. for the development of HOPE VI housing. KCDC has also entered into a ground lease with Eastport Development LP for the development of a low income housing project.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

Y - Subsequent Events: In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through December 7, 2015, the date the financial statements were available to be issued.

Z - Condensed Statement - Component Units: As per GASB 61, the condensed combining information is provided on the component unit:

	Knoxville Housing Development Corporation	Passport Development Corporation	Five Points I Corporation	Family Investment Foundation, Inc	Total
Condensed Statement of Net Position					
Current Assets	\$ 7,988,745	\$ 901,900	\$ 274	\$ 23,064	\$ 8,913,983
Capital Assets	1,760,999	-	122,132	-	1,883,131
Other Assets	130,442	763,169	-	-	893,611
Total Assets	\$ 9,880,186	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 11,690,725
Current Liabilities	\$ 290,852	\$ -	\$ -	\$ -	\$ 290,852
Noncurrent Liabilities	2,044,763	-	-	-	2,044,763
Total Liabilities	\$ 2,335,615	\$ -	\$ -	\$ -	\$ 2,335,615
Net Position					
Net Investment in Capital Assets	\$ (557,908)	\$ -	\$ 122,132	\$ -	\$ (435,776)
Restricted	-	-	-	-	-
Unrestricted	8,102,479	1,665,069	274	23,064	9,790,886
Total Net Position	\$ 7,544,571	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 9,355,110
Condensed Statement of Revenues, Expenses and Changes in Net Position					
Operating Revenues	\$ 567,623	\$ -	\$ -	\$ -	\$ 567,623
Operating Expenses					
Operating Expense-Other	101,843	48	1,261	23	103,175
Depreciation Expense	102,401	-	-	-	102,401
Total Operating Expenses	204,244	48	1,261	23	205,576
Nonoperating Revenue(Expense)					
Nonoperating Revenue-Other	49,772	4,627	-	7	54,406
Nonoperating Expense-Other	(107,305)	-	-	-	(107,305)
Federal Operating Grants	-	-	-	-	-
Total Nonoperating Revenue(Expense)	(57,533)	4,627	-	7	(52,899)
Transfers from(to) other entities	(120,647)	-	120,647	-	-
Change in Net Position	185,199	4,579	119,386	(16)	309,148
Net Position, beginning of year	7,359,372	1,660,490	3,020	23,080	9,045,962
Net Position, end of year	\$ 7,544,571	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 9,355,110

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)

Z - Condensed Statement - Component Units: (Continued)

	<u>Knoxville Housing Development Corporation</u>	<u>Passport Development Corporation</u>	<u>Five Points I Corporation</u>	<u>Family Investment Foundation, Inc</u>	<u>Total</u>
Condensed Statement of Cash Flows					
Net Cash Flows from (used) Operating Activities	\$ 387,831	\$ (99,489)	\$ 118,507	\$ (23)	\$ 406,826
Net Cash Flows provided (used) Noncapital Financing Activities	-	(10,592)	-	-	(10,592)
Net Cash provided (used) by Capital and Related Financing Activities	(713,716)	-	(119,112)	-	(832,828)
Net Cash provided (used) by Investing Activities	59,828	93,505	-	7	153,340
Net increase in Cash and Cash Equivalents	(266,057)	(16,576)	(605)	(16)	(283,254)
Cash - Beginning of year	3,041,620	16,576	605	23,080	3,081,881
Cash-End of year	<u>\$ 2,775,563</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,064</u>	<u>\$ 2,798,627</u>

AA - Decrease in Net Position: The decrease in net position is expected to be absorbed through operations in subsequent fiscal years, assisted by transfers from various programs. No fund deficit is expected as a result of the current year loss.

AB - Extraordinary Items: In the current year, KCDC engaged in a transaction directed by local government and outside management control that is unusual in nature. This transaction related to assets held for conveyance which occurred in the State/Local Program for a net loss of (\$77,200). KCDC also engaged in a transaction to terminate the investment agreement with FSA Capital Management Services LLC for the investment of debt service reserve funds associated with KCDC's Capital Program Revenue Bonds Series 2004 which was very unusual in nature. This extraordinary transaction occurred in the Low Income Public Housing Program for a net gain of \$160,167 (Lonsdale Homes AMP: \$96,100 and Northridge Crossing AMP: \$64,067). Both transactions resulted in a total net gain of \$82,967.

SUPPLEMENTAL INFORMATION

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2015

	Section 8 Housing Choice Voucher Program	Blended Component Units	State & Local Programs	Other Business Activities	Mainstream Voucher Program	PIH Family Self- Sufficiency Program	Section 8 Moderate Rehabilitation Program	Community Development Block Grant	Central Office Cost Center	Eliminations	Total 2015
ASSETS											
Current assets											
Cash and cash equivalents, unrestricted	\$ 8,689,958	\$ 184,732	\$ 2,798,627	\$ 138,719	\$ -	\$ -	\$ 66,893	\$ -	\$ 3,055,528	\$ -	\$ 15,034,459
Cash and cash equivalents, restricted	-	95,767	-	-	-	-	-	-	-	-	95,772
Investments, unrestricted	10,432,734	185,901	5,496,629	110,465	7,055	-	132,172	-	3,652,508	-	20,017,464
Investments, restricted	2,139,782	20,495	-	-	-	-	-	-	-	-	2,160,277
Accrued interest receivable	19,677	389	10,367	208	13	-	249	-	8,961	-	39,864
Accounts receivable, net of allowance	53,632	23,797	434,777	515	-	-	171	-	5,911	-	518,803
Due from other governments	470,129	59,529	171,783	-	28,202	-	13,965	-	-	-	810,116
Inventories, net of allowance for obsolescence of \$3,398	32,894	-	-	-	-	-	-	-	30,698	-	63,592
Prepaid items	352,323	31,383	1,800	45	-	-	-	-	68,312	-	467,567
Assets held for sale or conveyance	-	-	-	-	-	-	-	-	-	-	343,200
Total current assets	22,191,134	601,993	8,913,983	249,952	35,270	-	213,450	-	6,821,918	-	39,551,114
Noncurrent assets											
Other assets											
Notes and mortgages receivable	8,734,838	-	880,442	-	-	-	-	-	-	-	10,207,419
Investments in joint ventures	-	-	13,169	-	-	-	-	-	-	-	13,169
Total other assets	8,734,838	-	893,611	-	-	-	-	-	-	-	10,220,588
Capital assets											
Not being depreciated	9,310,477	-	244,160	-	-	-	-	-	-	-	9,769,037
Depreciable, net	54,136,146	-	1,638,971	-	-	-	-	-	57,830	-	55,832,947
Total capital assets, net	63,446,623	-	1,883,131	-	-	-	-	-	57,830	-	65,601,984
Other noncurrent assets											
Assets held for conveyance or sale	-	-	-	-	-	-	-	-	-	-	6,520,800
Total other noncurrent assets	-	-	-	-	-	-	-	-	-	-	6,520,800
Total noncurrent assets	72,181,461	-	2,776,742	-	-	-	-	-	57,830	-	82,343,372
Total assets	94,372,595	601,993	11,690,725	249,952	35,270	-	213,450	-	6,879,748	-	121,894,486
Deferred outflow of resources	-	-	-	-	-	-	-	-	-	-	-
Total assets and deferred outflow of resources	94,372,595	601,993	11,690,725	249,952	35,270	-	213,450	-	6,879,748	-	121,894,486

LIABILITIES											
Current liabilities											
Vendors and contractors payable	143,900	18,494	7,054	4,969	11,268	-	-	-	26,452	-	212,137
Accrued wages/taxes payable	177,529	27,008	-	751	2,702	-	-	-	106,380	-	314,370
Accrued compensated absences	391,116	54,297	-	4,110	22,624	-	-	-	319,300	-	791,447
Accrued interest payable	355,677	-	8,323	-	-	-	-	-	-	-	364,000
Due to other governments	146,473	784	-	-	-	-	-	19,662	-	-	166,919
Unearned revenues	499,778	-	-	51,760	-	-	-	-	-	-	551,538
Notes and bonds payable	1,563,861	-	274,144	-	-	-	-	-	-	-	1,838,005
Other current liabilities	715	35,833	-	-	5	-	-	-	-	-	36,553
Accrued liabilities	370,366	1,493	1,331	113	942	-	-	-	17,028	-	391,273
Total current liabilities	3,649,415	137,909	290,852	61,703	37,541	-	-	19,662	-	469,160	4,666,242
Noncurrent liabilities											
Notes and bonds payable	20,377,442	-	2,044,763	-	-	-	-	-	-	-	22,422,205
Accrued compensated absences	624,650	86,420	-	3,502	35,786	-	-	-	512,892	-	1,263,250
FSS escrows	-	47,698	-	-	-	-	-	-	-	-	47,698
Total noncurrent liabilities	21,002,092	134,118	2,044,763	3,502	35,786	-	-	-	512,892	-	23,733,153
Total liabilities	24,651,507	272,027	2,335,615	65,205	73,327	-	-	19,662	982,052	-	28,399,395
Deferred inflow of resources											
Total liabilities and deferred inflow of resources	24,651,507	272,027	2,335,615	65,205	73,327	-	-	19,662	982,052	-	28,399,395
NET POSITION											
Net investment in capital assets	41,505,320	-	(435,776)	214,400	-	-	-	-	57,830	-	41,341,774
Restricted	-	32,731	-	-	-	-	-	-	-	-	32,731
Unrestricted	28,215,768	297,235	9,790,886	7,571,148	176,625	35,270	-	193,788	-	5,839,866	52,120,586
Total net position	\$ 69,721,088	\$ 329,966	\$ 9,355,110	\$ 7,785,548	\$ 176,625	\$ 35,270	\$ -	\$ 193,788	\$ -	\$ 5,897,696	\$ 93,495,091

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	Section 8 Housing Choice Voucher Program	Blended Component Units	State & Local Programs	Other Business Activities	Mainstream Voucher Program	PIH Family Self- Sufficiency Program	Section 8 Moderate Rehabilitation Program	Community Development Block Grant	Central Office Cost Center	Eliminations	Total 2015
Operating revenues											
Rental revenue	\$ 4,725,370	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,725,370
Fee revenue	-	-	-	-	-	-	-	-	4,658,315	(4,658,315)	-
HUD grants	15,329,323	21,572,667	-	-	526,865	90,677	515,448	-	-	-	38,034,980
Other governmental grants	-	-	374,382	-	-	-	-	174,400	-	-	548,782
Other revenue	659,342	4,455	195,241	270,093	-	-	287	-	302,018	(279,944)	1,300,747
Total operating revenues	20,714,035	21,577,122	151,255	270,093	526,865	90,677	515,735	174,400	4,960,333	(4,938,259)	44,609,879
Operating expenses											
Administrative	6,360,432	1,743,544	69,061	111,920	27,646	53,815	59,629	-	3,258,833	(3,427,689)	8,257,191
Asset management fee	422,230	-	-	-	-	-	-	-	-	(422,230)	-
Tenant services	389,793	24,638	-	-	254,620	-	-	-	-	-	759,728
Utilities	3,270,422	-	5,807	1,433	-	-	-	-	71,686	-	3,349,348
Ordinary maintenance & operation	6,207,384	2,928	21,830	4,129	606	-	-	-	686,948	(868,700)	6,055,125
Protective services	600,138	-	-	-	-	-	-	-	-	-	600,138
Insurance	463,861	22,545	2,753	770	366	-	-	-	52,576	-	542,871
General expenses	1,482,854	275,517	3,724	14,436	25,818	-	240	-	176,565	(219,640)	1,759,514
Housing assistance payments	-	20,701,948	-	-	460,883	-	454,870	-	-	-	21,617,701
Depreciation	9,875,388	-	102,401	-	-	-	-	-	28,025	-	10,005,814
Total operating expenses	29,072,502	22,771,120	132,688	309,056	514,698	90,677	514,739	-	4,274,633	(4,938,259)	52,947,430
Operating income (loss)	(8,358,467)	(1,193,998)	18,567	(38,963)	12,167	-	996	174,400	685,700	-	(8,337,551)
Nonoperating revenues (expenses)											
Interest revenue, unrestricted	104,284	2,025	54,406	45	1,248	102	1,166	-	32,084	-	195,360
Interest revenue, restricted	46,278	-	-	-	-	-	-	-	-	-	46,278
Interest expense	(1,027,450)	-	(107,305)	-	-	-	-	-	-	-	(1,134,755)
Fraud recovery	65,850	241,506	-	-	-	-	280	-	-	-	307,636
Other revenue (loss)	160,167	-	-	(77,200)	-	-	-	-	-	-	82,967
Other expense	(84,446)	-	-	-	-	-	-	-	-	-	(84,446)
Cost of sale of assets	800	-	-	-	-	-	-	-	18,610	-	19,410
Total nonoperating revenues and transfers	(734,517)	243,531	(52,899)	(77,155)	1,248	102	1,446	-	50,694	-	(567,580)
Capital contributions	(9,092,984)	(950,467)	309,148	(58,588)	(37,715)	12,269	2,442	174,400	736,394	-	(8,905,101)
Transfers from (to) other entities	3,249,324	-	-	-	-	-	-	-	-	-	3,249,324
Increase (decrease) in net position	174,400	-	-	-	-	-	-	(174,400)	-	-	-
Net position, beginning of year	(5,669,260)	(950,467)	309,148	(58,588)	(37,715)	12,269	2,442	-	736,394	-	(5,685,777)
Net position, end of year	75,390,348	1,280,433	9,045,962	7,844,136	214,340	23,001	191,346	-	5,161,302	-	99,150,868
Net position, beginning of year	\$ 69,721,088	\$ 329,966	\$ 9,355,110	\$ 7,785,548	\$ 176,625	\$ 35,270	\$ 193,788	\$ -	\$ 5,897,696	\$ -	\$ 93,495,091

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF NET POSITION
BLENDED COMPONENT UNITS
JUNE 30, 2015

	Knoxville's Housing Development Corporation	Passport Development Corporation	Five Points I Corporation	Family Investment Foundation, Inc.	Total
ASSETS					
Current assets					
Cash and cash equivalents, unrestricted	\$ 2,775,563	\$ -	\$ -	\$ 23,064	\$ 2,798,627
Investments, unrestricted	5,030,385	466,244	-	-	5,496,629
Accrued interest receivable	9,488	879	-	-	10,367
Accounts receivable, net of allowance	-	434,777	-	-	434,777
Due from other governments	171,783	-	-	-	171,783
Prepaid items	1,526	-	274	-	1,800
Total current assets	7,988,745	901,900	274	23,064	8,913,983
Noncurrent assets					
Other assets					
Notes and mortgages receivable	130,442	750,000	-	-	880,442
Investments in joint ventures	-	13,169	-	-	13,169
Total other assets	130,442	763,169	-	-	893,611
Capital assets					
Not being depreciated	122,028	-	122,132	-	244,160
Depreciable, net	1,638,971	-	-	-	1,638,971
Total capital assets, net	1,760,999	-	122,132	-	1,883,131
Total noncurrent assets	1,891,441	763,169	122,132	-	2,776,742
Total assets	9,880,186	1,665,069	122,406	23,064	11,690,725
Deferred outflow of resources	-	-	-	-	-
Total assets and deferred outflow of resources	9,880,186	1,665,069	122,406	23,064	11,690,725
LIABILITIES					
Current liabilities					
Vendors and contractors payable	7,054	-	-	-	7,054
Accrued interest payable	8,323	-	-	-	8,323
Notes and bonds payable	274,144	-	-	-	274,144
Accrued liabilities	1,331	-	-	-	1,331
Total current liabilities	290,852	-	-	-	290,852
Noncurrent liabilities					
Notes and bonds payable	2,044,763	-	-	-	2,044,763
Total liabilities	2,335,615	-	-	-	2,335,615
Deferred inflow of resources	-	-	-	-	-
Total liabilities and deferred inflow of resources	2,335,615	-	-	-	2,335,615
NET POSITION					
Net investment in capital assets	(557,908)	-	122,132	-	(435,776)
Unrestricted	8,102,479	1,665,069	274	23,064	9,790,886
Total net position	\$ 7,544,571	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 9,355,110

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BLENDED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2015

	Knoxville's Housing Development Corporation	Passport Development Corporation	Five Points I Corporation	Family Investment Foundation, Inc.	Total
Operating revenues					
Other governmental grants	\$ 374,382	\$ -	\$ -	\$ -	\$ 374,382
Other revenue	193,241	-	-	-	193,241
Total operating revenues	567,623	-	-	-	567,623
Operating expenses					
Administrative	68,029	22	987	23	69,061
Utilities	5,807	-	-	-	5,807
Ordinary maintenance & operation	21,830	-	-	-	21,830
Insurance	2,479	-	274	-	2,753
General expenses	3,698	26	-	-	3,724
Depreciation	102,401	-	-	-	102,401
Total operating expenses	204,244	48	1,261	23	205,576
Operating income (loss)	363,379	(48)	(1,261)	(23)	362,047
Nonoperating revenues (expenses)					
Interest revenue, unrestricted	49,772	4,627	-	7	54,406
Interest expense	(107,305)	-	-	-	(107,305)
Total nonoperating revenues	(57,533)	4,627	-	7	(52,899)
Income (loss) before transfers	305,846	4,579	(1,261)	(16)	309,148
Transfers from (to) other entities	(120,647)	-	120,647	-	-
Increase (decrease) in net position	185,199	4,579	119,386	(16)	309,148
Net position, beginning of year	7,359,372	1,660,490	3,020	23,080	9,045,962
Net position, end of year	\$ 7,544,571	\$ 1,665,069	\$ 122,406	\$ 23,064	\$ 9,355,110

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF CASH FLOWS
BLENDED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2015

	Knoxville's Housing Development Corporation	Passport Development Corporation	Five Points I Corporation	Family Investment Foundation, Inc.	Total
Cash Flows From Operating Activities					
Receipts from dwelling rentals	\$ -	\$ (99,441)	\$ -	\$ -	\$ (99,441)
Operating grants	374,382	-	-	-	374,382
Other receipts	206,097	-	-	-	206,097
Payments to employees and suppliers	(71,166)	(48)	(1,915)	(23)	(73,152)
Payments to landlords and resident benefits	(835)	-	(225)	-	(1,060)
Transfers	(120,647)	-	120,647	-	-
Net cash provided (used) by operating activities	387,831	(99,489)	118,507	(23)	406,826
Cash Flows From Noncapital Financing Activities					
Principal paid on operating debt	-	(10,592)	-	-	(10,592)
Cash Flows From Capital and Related Financing Activities					
Purchases of capital assets	-	-	(119,112)	-	(119,112)
Principal paid on capital debt	(602,902)	-	-	-	(602,902)
Interest paid on capital debt	(110,814)	-	-	-	(110,814)
Net cash provided (used) by capital and related financing activities	(713,716)	-	(119,112)	-	(832,828)
Cash Flows From Investing Activities					
Purchase of investments	10,157	89,104	-	-	99,261
Proceeds from homebuyer note activity - net	3,698	-	-	-	3,698
Investment in joint ventures	-	26	-	-	26
Interest	45,973	4,375	-	7	50,355
Net cash provided (used) by investing activities	59,828	93,505	-	7	153,340
Net increase (decrease) in cash and cash equivalents	(266,057)	(16,576)	(605)	(16)	(283,254)
Balance - beginning of the year	3,041,620	16,576	605	23,080	3,081,881
Balance - end of the year	\$ 2,775,563	\$ -	\$ -	\$ 23,064	\$ 2,798,627
Reconciliation of Cash Flows to Statement of Net Position					
Cash and cash equivalents, unrestricted	\$ 2,775,563	\$ -	\$ -	\$ 23,064	\$ 2,798,627
	\$ 2,775,563	\$ -	\$ -	\$ 23,064	\$ 2,798,627

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

COMBINING SCHEDULE OF CASH FLOWS
BLENDED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Reconciliation of Net Operating Income (Loss) to
Net Cash Provided (Used) By Operating Activities

	Knoxville's Housing Development Corporation	Passport Development Corporation	Five Points I Corporation	Family Investment Foundation, Inc.	Total
Operating income/(loss)	\$ 363,379	\$ (48)	\$ (1,261)	\$ (23)	\$ 362,047
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:					
Depreciation elimination	102,401	-	-	-	102,401
Increase in accounts receivable	-	(99,441)	-	-	(99,441)
Decrease in due to/from other governments	12,856	-	-	-	12,856
Decrease in prepaid expenses	4,079	-	(274)	-	3,805
Decrease in other assets	19,717	-	-	-	19,717
Increase in accounts payable	6,075	-	-	-	6,075
Decrease in accrued wages	(1,360)	-	(605)	-	(1,965)
Increase in unearned credits	1,331	-	-	-	1,331
Transfers	(120,647)	-	120,647	-	-
	<u>\$ 387,831</u>	<u>\$ (99,489)</u>	<u>\$ 118,507</u>	<u>\$ (23)</u>	<u>\$ 406,826</u>

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

CERTIFICATION OF ACTUAL CAPITAL FUND
MODERNIZATION COSTS
JUNE 30, 2015

PROGRAM	TN37P003
	501-08
Funds approved	<u>\$ 5,455,293</u>
Funds expended	<u>5,455,293</u>
Excess of funds approved	<u>\$ -</u>
Funds advanced	<u>\$ 5,455,293</u>
Funds expended	<u>5,455,293</u>
Excess of funds advanced	<u>\$ -</u>

The distribution of costs as shown on the Actual Modernization Cost Certificate submitted to HUD for approval is in agreement with the PHA's records.

All modernization costs have been paid and all related liabilities have been discharged through payment.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor:

CFDA Number	Program Title	Pass Through Entity	Federal Expenditures
U.S. Department of Housing and Urban Development			
14.850	Low Rent Public Housing	NA	\$ 14,484,440
14.872	Capital Fund Program	NA	4,094,207
	Housing Voucher Cluster		
14.871	Housing Choice Voucher Program	NA	21,572,667
14.879	Mainstream Voucher Program	NA	526,865
	Total Housing Voucher Cluster		22,099,532
14.896	PIH Family Self-Sufficiency Program		90,677
14.856	Section 8 Housing Assistance Payments - Moderate Rehabilitation	NA	515,448
14.218	Community Development Block Grant	County of Knox	174,400
Total U.S. Department of HUD			41,458,704
Total Federal Awards Expenditures			\$ 41,458,704

Notes to the Schedule of Expenditures of Federal Awards

A. Basis of Accounting

This schedule is prepared on the accrual basis of accounting.

B. Basis of Presentation

The accompanying Schedule of Federal Awards (the Schedule) includes the federal grant activity of the Authority under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations". Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

C. Reconciliation of Total Federal Awards Expenditures to Financial Data Schedule

FDS line 706	HUD PHA Grants	\$ 38,034,980
FDS line 706.1	Capital Grants	3,249,324
FDS line 708	Other government grants	548,782
	Less: Local TIF proceeds	(374,382)
		\$ 41,458,704

SINGLE AUDIT SECTION

MALCOLM JOHNSON & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Knoxville's Community Development Corporation
Knoxville, Tennessee

HUD, Knoxville Field Office
710 Locust Street, S. W.
Knoxville, Tennessee 37902-2526

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Knoxville's Community Development Corporation (the Authority), which include the statement of net position as of June 30, 2015, and the related statements of revenue, expenses and changes in net position, cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon December 7, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

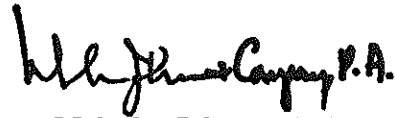
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 7, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
December 7, 2015

MALCOLM JOHNSON & COMPANY, P.A.
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Knoxville's Community Development Corporation
Knoxville, Tennessee

HUD, Knoxville Field Office
710 Locust Street, S. W.
Knoxville, Tennessee 37902-2526

Report on Compliance for Each Major Program

We have audited Knoxville's Community Development Corporation's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2015. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133)*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Program

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2015.


Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirements of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Malcolm Johnson & Company, P.A.
Certified Public Accountants

DeBary, Florida
December 7, 2015

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Basic Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
~ Material weakness identified?	No
~ Significant deficiency identified that is not considered to be a material weakness?	None Reported
Noncompliance material to basic financial statements noted?	No

Federal Awards

Internal control over major programs:	
~ Material weakness identified?	No
~ Significant deficiency identified that is not considered to be a material weakness?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit finding disclosed that is required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

CFDA Number	Name of Federal Program
14.850	Low Rent Public Housing
14.872	Capital Fund Program

Dollar threshold used to distinguish between type A and type B programs:	\$1,243,761
Auditee qualified as low-risk auditee?	Yes

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

SECTION II – BASIC FINANCIAL STATEMENT FINDINGS

There are no Basic Financial Statement Findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no Federal Award Findings and Questioned Costs.

KNOXVILLE'S COMMUNITY DEVELOPMENT CORPORATION
Knoxville, Tennessee

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no Prior Audit Findings.